BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

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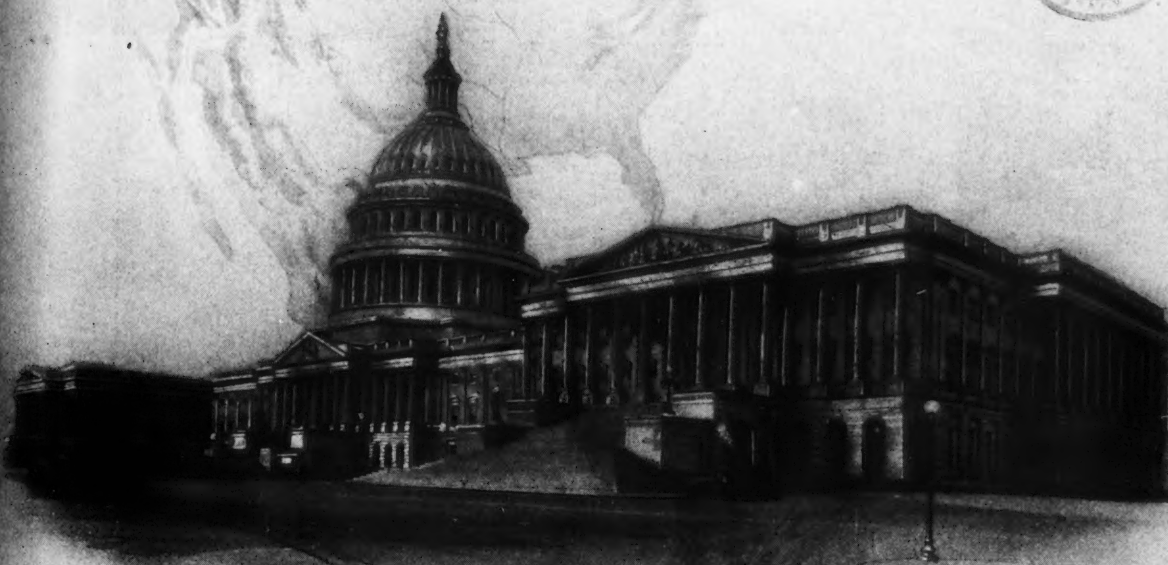

OCTOBER 1934

The Picture of Wealth

The Mobilization of Capital

The Direction of the New Deal

BANKING'S Business Report

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RECENT interesting magazine articles are: Whose Child is the NRA?, by John T. Flynn in September Harpers . . . Government's Grasp on Banking, by Arthur Crawford in September Nation's Business . . . Has Business Leadership Failed?, by Albert W. Atwood in the Saturday Evening Post . . . The Amended Securities Act, by Arthur H. Dean in September Fortune . . . A Growing Bureaucracy, by Albert Shaw in September Review of Reviews . . . Undefined Aims of the New Deal, by Neil Carothers in the New York Herald Tribune Sunday Magazine . . . What Outlook for Loans?, by Frederick M. Blossom in The Burroughs Clearing House for September . . . Double Time—The Deane Plan, by A. L. Deane in the September American Federationist . . . The Forward View, by Alfred P. Sloan, Jr., in the September Atlantic Monthly

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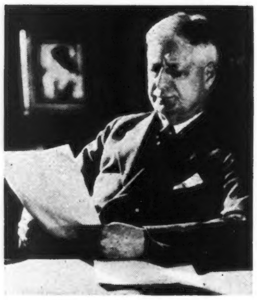

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MINUTES

Uniform Examinations

A NEW approach to credit expansion, through a uniform system of bank examination and a reclassification of loans, has been offered as a result of a conference held at Washington among examiners for the principal financial agencies of the Government.

Coming at a time when "other loans" of reporting Federal Reserve member banks in 91 leading cities had increased for several consecutive weeks, the conference, called by Secretary Morgenthau, represented an important step toward meeting the desire of the banks and the Administration for a more active flow of credit into industrial channels.

Attending the meetings were examiners from the office of the Comptroller of the Currency, the Federal Reserve Board and banks, the Reconstruction Finance Corporation and the Federal Deposit Insurance Corporation. Speakers included Mr. Morgenthau, Chairman Jones of the R.F.C., Comptroller O'Connor and Francis M. Law, President of the American Bankers Association. The conference, Mr. Morgenthau pointed out, dovetailed with the survey of credit extension undertaken in the Chicago Federal Reserve district.

*

Mr. Law

Mr. Law, speaking at the invitation of Secretary Morgenthau, said the existing program of "slow" classification with respect to loans was "a distinct deterrent and discouragement to the expansion of credit." There was, he asserted, a general feeling among bankers that a program of coordination among Government authorities was desirable. He suggested greater coordination in at least three activities: (a) a standard, uniform condition statement after call; (b) elimination to an irreducible minimum of duplicating and multiple reports required by various banking authorities, and a simplification of required reports; and (c) centralized examination. For national banks one source of examination should be sufficient; for state banks which are F.D.I.C. members joint examinations conducted by state and Federal authorities should be arranged.

*

Security

It is uncertain at this time how big a part the subject of "social security" will play in the politics and economics of the coming winter, but it is certain that all talk along this line will be of little effect if something is not done to establish public faith in the security of capital and property. It may be some time before the average working man will realize that confidence in the security of capital is necessary for his immediate benefit. That realization will come in time. There can be no social security without security for the results of human effort, be it that of employer or employee.

*

Light

The mid-September week increase of $114,000,000 in "all other" loans was nearly equal to the $116,000,000 registered in the previous six weeks. The total is not very impressive but it is significant.

Whether or not it can be taken as the final indication of the anticipated fall up-turn in business, it at least demonstrates that banks are doing something to "re-energize" commerce and industry. Not less significant is the fact that Federal authorities are now realizing that their criticisms of the banks several months ago, that banks were not lending enough money to business, is no longer true. Many officials are frank enough to admit the fact.

Add to these changes the prospective results of the study of a number of applications for loans in the Chicago district in their relation to policies followed by bank examiners, and the conference of the examiners representing all Federal bank supervisory authorities in Washington, and light begins to break.

There may be something in the liaison job between the Government and the banks which former Governor Black of the Reserve Board has undertaken.

*

Bonds

All things considered, it is probable that the Government's September financing has gone off as well for all concerned as could have been expected. The Government pays a little higher interest than it might have hoped for; the investors get a little higher return than they expected but hardly more than enough to bring a favorable reaction in a sluggish and doubtful market. The market feels that it is running risks for which the Government must pay; investors realize that they must support Government credit as a matter of self-preservation if nothing else.

One drag upon Government financing

While J. J. Thomas heads the Reserve Board as Vice-Governor, succeeding Mr. Black, the Governorship remains temporarily vacant

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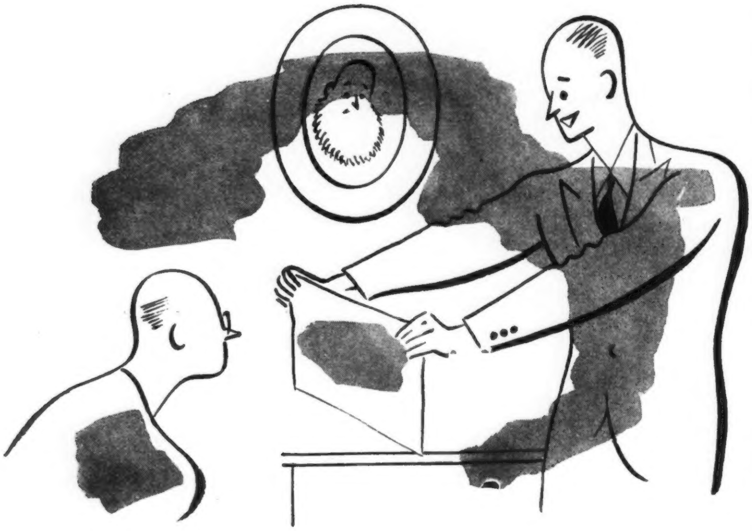

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is the fact that something like a billion and a half dollars in Government-guaranteed Federal Farm Mortgage and Home Owners' Loan Corporation bonds have been marketed so far this year, and the amount is increasing by something like $275,000,000 a month. That in itself means that the Federal Treasury is drawing upon the investment market, directly or indirectly, to the extent of close to three and a half billion dollars a year for purposes other than those purely governmental.

*

High Prices

Eighteen months ago there was a great hullabaloo over the necessity of raising commodity prices to stimulate business. Today prices are higher than they have been for many months, but for some reason or other business stimulation does not seem to be a result.

It seems to have been discovered after experimentation for over a year and a half that high prices for producers also mean high prices for consumers, and if the latter cannot or will not pay high prices business is strangled instead of stimulated. It may be learned in another 18 months that high prices follow and do not lead business activity.

*

Theories

There is now a theory going the rounds that, as the business reaction last fall was the result of over-activity

THE BUDGET

Upon the resignation of Lewis W. Douglas as Federal Budget Director, Daniel W. Bell, below, took over Mr. Douglas' work temporarily

INTERNATIONAL

MUNITIONS

Washington's chief claim to international attention this month has been the munitions investigation. Above are Stephen Rauschenbach, investigator for the Senate, Irenee, Pierre and Lammot DuPont

in the June–August period last year, so the present refusal of the business activity index to rise in the anticipated fall up-turn is due to over-activity in the earlier part of the current year.

The June–August production index last year averaged 95 on the 1923–25 basis. The three best months this year—April, May and June—averaged 85 on the same basis. At this rate the action and reaction of activity will soon take us back to the starting point.

The fact is that a period of recovery is always characterized by alternate advances and recessions both of which are emphasized in proportion to the amount of artificial stimuli applied to secure the advances. With more reliance upon natural forces of recovery and less upon panaceas there will be fewer jerks in the recovery process. The advance will be steadier and, in the long run, more certain.

*

Price Policy

Any one who expects an early report from the committee of Cabinet members appointed by the President to decide upon a price policy for the National Recovery Administration had better not hold his breath while waiting. When the committee solves the price problem it will have guessed the N.R.A. riddle; and that isn't so easy.

*

Americans "Preferred"

Foreign buying of American stocks and other securities is reported as in progress. One optimistic American authority, after a personal inspection of the situation abroad, thinks that the European buying wave may reach a total of a billion dollars in the course of a few months.

Discounting much of such optimism it still remains a fact that now, as at many other times in the past, foreign investors have appraised the American investment situation more successfully than their American compeers—in the case of the latter a classical example of not seeing the woods for the trees.

*

Equipment Certificates

For a good many years railway equipment certificates were considered first class securities, being based upon mobile assets which could be seized in case of default. When the current business depression came on, one railway in financial difficulties offered to surrender the equipment given as security for an issue of certificates. The offer was declined for the simple reason that the certificate holders could not use the cars and no buyers were to be found.

Hence the equipment certificate business lagged. The R.F.C. has come to the rescue in recent months and in the past few weeks private capital has again been enlisted in such financing. There is more significance in the latter fact than in tons of recovery ballyhoo.

*

Stabilization

Money and exchange markets seldom if ever know when governmental stabilization or equalization funds are brought

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into play except as they can deduce facts from results. How far or in what way the stabilization fund of the Treasury has been used or how near exhaustion the British equalization fund has been brought by the past year's operations may be uncertain, but it is quite certain that if, as and when these funds are used against definite trade and exchange trends they are doomed to failure.

Temporary equalization of the exchange value of a currency is possible and perhaps commendable, but any attempt to go beyond this leads to ruin. It may be suspected that the British Government learned this lesson some time ago and that the Treasury in Washington is profiting by its experience.

*

Gold

Back in 1931 when Great Britain went off the gold standard, India began to export the gold it had been accumulating and hoarding for many years. It was estimated at the time that as much as $300,000,000 (old style) might be sent out of the country before the movement terminated. Up to the end of June this year India had exported a little over half a billion dollars in gold at the old par, and the yellow flood leaving the country shows no signs of lessening. Russia, also, in the same period has accumulated a healthy gold reserve and has exported nearly $200,000,000—far more than its production.

One may wonder just how correct are world estimates of gold stocks. Certainly there is no indication that estimates are too large, while evidence accumulates that they are too low. So far as gold stocks go there is no need for the world to hesitate to return to the gold standard.

*

Perverse China

For the greater part of five years, in periodic recurrence of many years of previous agitation, a considerable number of Senators and Representatives in the Congress of the United States have insisted upon saving China and increasing its buying power in the markets of the world by increasing the price of silver. Now it seems that China is so obtuse or perverse as to believe that the present high price of silver hasn't saved the nation and is actually decreasing its buying power in world markets. True, as far back as a year ago China protested that it did not want to be saved by the silver route, but American statesmen seemed to believe they knew what China needed.

Don't Blame Your Butcher
for higher prices . . . . .

Let's be fair about this business of rising meat prices.

It is not sporting, it is un-American, to lay the responsibility, thoughtlessly, where it does not belong.

Your butcher is not to blame. The packer behind him is not to blame. The rising price of meat products is a direct result of the government's efforts to bring relief to the farmer.

We are not criticising this effort. We believe it to be wholly patriotic, and aimed to benefit the whole country. If the farmer's purchasing power can be raised, through better prices for his livestock and other farm products, all industry is benefited, and hundreds of thousands of unemployed put back to work.

Please note these two facts:

THE FACTS

This poster, distributed to butchers by the Albany Packing Company, goes on to say that three months ago choice hogs were $3.60 a hundred pounds at Chicago plus $2.25 Government tax. "Today, with the Government's program of farm relief in effect, the packer is paying $8.00 per hundred pounds." Furthermore, certain pork products have advanced 10 cents a pound in the last ten weeks, "an increase due solely to governmental activity on behalf of the farmer." Consumers' patience is asked for the packer and the butcher, who have not passed on to their customers "anywhere near that amount"

Corn

The smallest corn crop since 1881 has solved the corn surplus problem, the pork problem and several other low-price-for-farm-products problems, but it certainly has not added to the wealth of the United States or solved the consumer's problem. The drought has done immense damage to the American people, but that damage is as much due to official tinkering with farm production as to the operations of Nature. The A.A.A. is now paying out a million dollars a day under its corn-hog restriction program to help the good work along.

*

"Pigs Is Pigs"

It is currently estimated by authorities of the Department of Agriculture that as a result of the pig-killing campaign and shortage of corn the total weight of hogs to be slaughtered in the year commencing October 1 will probably not exceed half that of the year just closing.

In theory, if the price of pork can be doubled the farmer would be just as well off in the matter of hog raising in the coming year as he has been in the past year, although that isn't saying much. In actual fact the reduced volume of business for the railways, the reduced volume of labor on the farms, in the packing houses, in the wholesale and retail trade, will react upon the farmer as well as upon everyone else. In more ways than one this is a united country.

*

Costs

President Alfred P. Sloan of the General Motors Corporation, in reviewing his company's business for the first half of the current year, said that the trend in industry generally was toward higher operating costs while the public generally is not in possession of purchasing power to sustain selling prices commensurate with such increase.

That is a diplomatic way of saying that costs must be kept low if industry is to revive. It is not in accord with the theory of recovery by the high wage route under the code system, much as one would prefer to maintain high wages, but in view of the exceptional record of the automobile industry so far this year it gives abundant food for thought. All things said and done, recovery is a matter of hard fact, not of sentimental preferences.

*

Monetary Adjustments

Just how much new money will be put into circulation as a result of the past winter's silver legislation is uncertain, since the policy of the Government is uncertain, (CONTINUED ON PAGE 76)

TO BANKERS WHO ASK:

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It supplements the work of the commercial bank, the savings bank, and the trust company, and is equally vital to a great many Americans—10,000,000 of whom have borrowed from Morris Plan institutions.

When a man comes to you for a loan that does not fit your method of operation, you can refer him to the local Morris Plan institution with the knowledge that he will receive fair, considerate treatment from people who specialize in his type of problem.

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BANKING
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OCTOBER 1934

The Picture of Wealth

THE picture of the condition of all banks in the United States evoked by the returns of the latest call report reminds an observer of the picture of the sleeping giant —an expression of tremendous, all but uncontrollable strength, unused. Deposits in the banks are the largest they have been since the close of 1931 and they are live deposits—represented by assets 54 per cent liquid. If the average of liquidity is 54 per cent the actual liquidity of a majority of the banks must be considerably greater.

A PROBLEM IN UNEMPLOYMENT

GROWTH OF THE RESERVE SYSTEM

One other feature stands out very clearly. That is the growth of the Federal Reserve System. In 1929 the Reserve member banks held 79.4 per cent of the banking resources of the United States excluding mutual savings banks. In the year ended June 30 last they held 86.4 per cent. There was general anticipation after the banking holiday that the Reserve System would receive a considerable increase in membership. That increase was slow in getting under way but the movement is now on in full force. Accordingly the banks in general not only have an abundance of funds available for all possible needs of business but they are also, to an increasing degree, placing themselves in a position to take advantage of every facility for rediscount and further credit expansion in drawing upon the all but unlimited credit pool now existing in the Federal Reserve System.

Accurate comparisons between the returns for all banks this year and last are impossible for several reasons. In the first place this year's figures, while the most complete so far obtained solely by Federal authority, are still incomplete. When the statistics were compiled there were 1,164 commercial banks which were not members of the Federal Deposit Insurance Corporation and which, therefore, made no returns. At last accounts—nearly two years ago—these banks had deposits of $550,964,000. The Corporation's returns also do not include those for the mutual savings banks whose deposits, according to the last return, amounted to $9,711,000,000 or more than one fourth of those of all commercial banks exclusive of interbank deposits. Nor do the returns include statistics from private banks which a year ago had assets of $46,913,000.

F.D.I.C. MEMBERS

According to the compilation of the F.D.I.C. the commercial bank members in the insurance system, embracing 90 per cent of all licensed commercial banks, had total assets on June 30 of $43,373,126,000. If the statistics of the deposits of commercial banks not members of the system and of mutual savings and private banks at the last available date be taken as a measure of their condition at the present time—it is probable that their total assets are considerably larger—the grand total of assets of all banks in the United States may be placed at $54,560,882,000. According to the summary collated by the Comptroller of the Currency in his last annual report the total of assets of all banks on June 30 last year was $51,301,908,000. The indicated increase in bank assets is $3,258,974,000. Undoubtedly the actual increase is considerably larger. In 1929 the total assets of all reporting banks in the United States was returned as $72,172,505,000; in 1930, $74,020,124,000; in 1931, $70,209,149,000; and in 1932, $57,245,131,000. Recovery from the low point of last year is substantial. Considering the amount of dead assets previously carried by the banks, even back in the boom days of 1929, it seems probable that the present volume of assets of superior quality reflects greater real strength than the banks have enjoyed for years.

RESERVE MEMBER STRENGTH

The figures most nearly comparable between this year and last are those of the banks in the Reserve System. It must be noted, however, that even in the System there were many banks not licensed as of June 30, 1933, although doubtless the resources of many since opened might fairly have been listed. On the other hand, there have been many banks merged or otherwise liquidated and in a few cases banks have dropped out of the System. To

some extent these changes counteract each other. At all events the assets and liabilities of the member banks increased between June 30, 1933, and June 30, 1934, from $33,046,780,000 to $37,384,811,000 or by $4,338,031,000. The increase is measured first of all by that in deposits which increased from $26,587,456,000 to $31,012,367,000 or by $4,424,911,000. This accounts for more than the total, the difference being accounted for chiefly by decreases in bills payable and rediscounts, acceptances executed for customers, surplus and reserves for contingencies. In other words, the banks got out of debt and had a tremendous surplus.

On the asset side of the ledger the total increase is more than accounted for by one of $2,388,468,000 in loans and investments, $1,584,231,000 in reserves with the Reserve banks and $658,059,000 in deposits in other banks. The difference is adjusted by decreases in various smaller items and includes $490,161,000 decrease in exchanges for clearinghouse and other checks on local banks—a measure of decreasing business activity.

LOANS AND INVESTMENTS The critical feature of the statement, naturally, is that relating to loans and investments. The increase in the banks' portfolios was from $24,786,371,000 to $27,174,839,000 or $2,388,468,000. This increase included $2,249,561,000 in Government securities and $508,643,000 in securities guaranteed by the United States Government—an aggregate increase of $2,758,204,000 or $369,736,000 more than the total increase. This discrepancy is covered by a decrease in loans amounting to $335,119,000 and in holdings of securities other than those of the Government or its subsidiaries of $34,617,000. Thus all the increase in deposits of $4,424,911,000 except $82,476,000 went into Government securities or reserves. More than the $82,476,000 went into deposits in other banks. The reserves of the member banks deposited with the Reserve banks on June 30 were $3,819,410,000, the excess reserves being $1,721,000,000.

Accurate comparison of the statistics of all banks, Reserve member banks and non-member commercial banks, also is difficult particularly in the matter of deposits. While the returns from all the banks were upon a similar form the compilation of the returns as put out by the Federal Deposit Insurance Corporation was along popular rather than technical banking lines, the result being the impossibility of accurate comparison of time, demand, and various intermediate classes of deposits in detail as listed by the Reserve authorities.

BANKS REPORTING If allowance be made for possible increases in capital and other non-depositor funds of the banks outside the Reserve System the total might reach $3,325,000,000 as an increase for all banks, including member banks. Yet the more accurate record of the Reserve System indicates that the increase in assets of the member banks alone during the year was $4,338,031,000, or more than a billion dollars in excess of the increase for all banks.

The number of banks reporting in 1933 was 13,945, this number not including the 576 mutual savings banks then open for business. The number of banks accounted for this year was 15,031, including 1,164 banks not members of the insurance system but also excluding the mutual savings institutions. The increase represents in part closed banks licensed to open during the year, and this accounts for some of the increase in assets. The number of Reserve Member banks increased during the year from 5,606 to 6,375 or by 769. While the great majority of these new members were small banks, this increase in membership largely accounts for the extraordinary expansion of member bank assets as compared with the assets of non-member banks. Probably there has been the same proportional increase in the assets of individual banks which were non-members of the Reserve in both years as in the case of member banks, but the fact remains that the country's bank resources are more and more coming to be concentrated in the Federal Reserve System.

BANKING STRENGTH The growth of bank resources during the year is manifestly closely connected with the financing and financial policy of the Federal Government. Historically the fiscal year of 1934 in banking will probably be known as the year of the great expansion. In that year approximately $2,300,000,000 tied up in frozen deposits in 3,100 unlicensed banks was reduced to $348,000,000 tied up in 623 unlicensed banks—not quite one per cent of the reported deposits in all commercial banks.

The record is not altogether as clear as that, but it is evident that not only has the banking business in the United States recovered from the devastating events of the spring of 1933 but that it also is in at least as strong a position to serve the nation's business as it ever has been in its history.

U. & U.

Donald R. Richberg (right), director of the Federal Executive Council, said in his third report on the progress of the national recovery program, that a relief roll of 5,000,000 families was probable in February, 1935

In contrast to this outlook, J. F. T. O'Connor (left), Comptroller of the Currency, in a speech to the Kentucky Bankers Association called attention to the extraordinarily strong condition of the country's banking structure

INTERNATIONAL

The Direction of The New Deal

By VIRGIL JORDAN

In this article Dr. Jordan, president of the National Industrial Conference Board, surveys present labor trends

ACME

INTERNATIONAL

TWO months ago in these pages, in an attempt to look "beyond the 'new deal'" and stimulate speculation on the probable form of our future international business relations, I suggested that the logic of events indicated one general outcome, largely independent of political changes. Our foreign trade and investment activity, I said, was likely to be based upon the old-fashioned principle of "areas of interest" or "spheres of influence", whether we assumed that the "new deal" philosophy in domestic affairs, with its steady trend toward state capitalism, would persist or disappear. In short, so far as foreign economic relations were concerned, if the "new deal" were a permanent dispensation it could only carry on and intensify the "imperialistic" tendencies that were present long before it enlivened the scene. The fundamental forces of international rivalry in foreign trade and investments would not be essentially altered. We would only find ourselves substituting the direct competition of Government agencies for that of state-aided private enterprise.

I refer back to this forecast, not only because it is already beginning to be borne out in some features of the trade treaty negotiations with Cuba, the Caribbean and South American countries which lie within our "sphere of influence", but also because the same principle is applicable to speculation about the probable development of policies in regard to some of our important internal problems, to which this and succeeding articles will be devoted.

In general it may be said that the more the forms of government, their political philosophies and their policies change, the more the basic economic conditions and problems with which they have to deal remain the same. They may become more aggressive and effective in dealing with these realities, or less so; but at best they can only go on doing—perhaps in slightly different ways—what was being done before. In trying to guess what lies beyond the "new deal", in respect to foreign relations, industrial regulation, labor conditions, agriculture, banking and investment markets, we should beware of assuming any sudden, great or fundamental changes, whether the "new deal" remains with us or is relegated to the limbo of political episodes.

The reasons for this are not hard to understand. The basic economic condi-


INTERNATIONAL

tions with which governments of any kind are compelled to deal are the product of forces of human nature and natural factors which are slow to change or be changed, either by academic theory, votes of energetic organized minorities, speeches of politicians, decrees of dictators, or acts of legislatures. Political paper programs are dominated and molded in the end by the superior rule of inescapable economic realities and by the enormous inertia of human nature. To these forces every passing epidemic of unrealism, such as has seized almost every country today, must finally surrender. Ultimately every political system, whether it be Communist, Fascist, Nazi or "new-deal" Socialism, has to bow down to the gods of things as they are and carry on in essentially the same way as before, however it may describe its policies.

I may add, incidentally, that the truth of this general consideration will be apparent if we try to imagine what a conservative government would do in the present situation in this country if it replaced the "new deal" administration tomorrow. It would be compelled to carry on most of the essential policies of the present. These in turn did not spring full armed from the "brain trust" on March 4, 1933; they had been developing long before. For many years administrations have been faced with essentially the same problems, though perhaps usually in less acute form, and had begun to deal with them in essentially the same ways. The roots of almost every one of the "new deal" devices reach back into the Hoover Administration, and beyond that one can trace them back into the days of the first Roosevelt and the "new freedom" of Wilson. Each in its day was a response to the situation with which government was confronted, as the "new deal" is. Retreat from the "new deal" does not mean release from the problems which this situation puts to us.

I point this out not by way of approval of the policies by which the present administration is meeting these problems, but by way of providing perspective against which we can better speculate on the probable development of these policies in the future.

Consider as an example, because of its timeliness, the problem of effective organization of relations between industrial workers and management with which we are struggling as this is written. Will the essentials of this problem or of public policies in relation to it be altered whether the "new deal" philosophy persists or disappears?

Everyone recognizes that for many years and in every country conflicts between groups of workers and employers have ceased to be merely a matter of private interest from which the public and its government can consistently remain aloof. The organization of wage workers tends inevitably to increase with the expansion of industry, partly under the natural human impulse of employees to apply more effective pressure upon employers and partly under the equally human competitive impulse of energetic and ambitious individual labor leaders to acquire power and promote their personal interest by exploiting the aforementioned impulse of the mass of workers.

Thus labor organizations everywhere have become political instruments, whether they are active as political parties or not. By their very nature they are designed to exercise the greatest possible compulsion both on their own members, other workers, and the public to secure advantage for certain groups and individuals at the expense of others, by use of political or physical force. The public and the state, which ultimately must represent the public interest, are compelled to take cognizance of them and protect themselves against them. This was apparent long before the "new deal" gave a great stimulus to labor organization activity, from the time of Cleveland down through the war days and the Adamson law, and it will be more obvious still whether the "new deal" stays with us or not.

What is the problem of the public interest which both the "new deal" and its successors are compelled to consider? So far as concerns industrial management, which is today in large part merely another group of employees, its interest is principally a professional one of maintaining the most effective cooperative and continuous working relations in the productive operation in which it is engaged along with all other workers. Although in this respect managements have great difficulty in dealing with some labor organizations, and on the basis of experience have developed definite ideas as to the form of organization which works best from this point of view, it is fair to say that they have no prejudice against any form of labor organization as such. In fact, they fully recognize the practical necessity or desirability of some organized basis of collective dealing with employees in large-scale enterprise where professional management is most prominent.

But this aspect of the problem concerns only matters of practical, everyday working relations, which for the most part are successfully handled in the thousands of factories throughout the country, whatever the form of labor organization, on the basis of expediency and common sense, and must and will be so handled no matter what governmental policies are injected into the picture, during or after the "new deal." Government usually appears in the day-to-day picture of working relations only in matters of safety and workmen's compensation protection, and the machinery that was gradually developed for this purpose, long before the "new deal", works smoothly and is likely to go on working and developing in much the same way as before. The overwhelming majority of detailed ad-

justments of individual grievances that arise from day to day throughout industry have been, are being and must always be handled without governmental intervention. Under the "new deal" the ponderous machinery of government has been brought into action in such matters, much as a steam-hammer might be used to crack nuts, only for passing political purposes and effect, and can never have any permanent place.

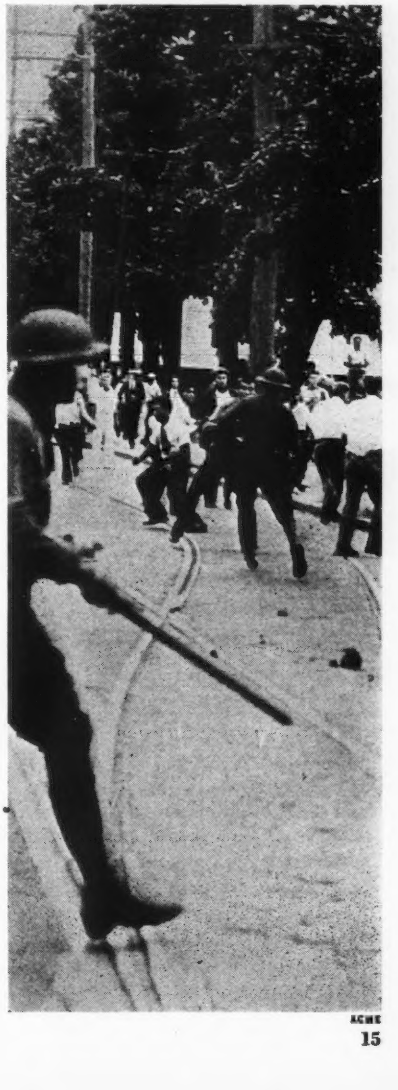
But except where they are artificially magnified for such purposes, or are prevalent enough to be symptoms of a general condition of labor unrest, these questions of day-to-day industrial relations do not touch the broader problems of public interest. These problems of public interest arise only where the physical force or political power of organized groups is used so as to affect the maintenance of essential public services, continuity of production and employment, and the level of wages and working hours. Here the public and government are inevitably involved wherever the organization and power of labor have been extended to the point where its activities affect the public interest in any of these respects. That point has been reached in every other industrial country and appears to have been reached in this country even before the "new deal" gave added impetus to labor organization and official support to use of its power. Everywhere labor organizations have become a factor influencing the balance of economic forces and potentially even affecting the public safety.

To anyone attempting to look beyond the "new deal" in this problem of industrial relations the essential question is whether the principles that will be applied to this problem of public interest can ultimately be fundamentally different under the "new deal" or under any other political philosophy? Indeed, can they in the end be different in this country from those that have been applied in England, Germany, Italy or Russia?

I suggest that, no matter what new words we may invent to describe them, they will be essentially the same because the economic realities are essentially the same, and no political formula can finally evade them. In its emphasis upon the money purchasing power of consumers the "new deal" philosophy may stimulate and support labor organization and sanction strikes for higher wages and shorter hours. It may support out of public funds the increased unemployment that results, and sanction the stoppage of production or even the suspension of necessary public services in order to bring public pressure to bear upon employers to raise wages and shorten hours. It may thereby temporarily gain political support for pursuance of these policies from the minority groups in the public who are immediately benefited, and it may enlist in its service those labor leaders whose power has been increased in consequence. But in the end, like any other administration, it will have to reckon with the relentless economic and human realities involved and apply the same principles to deal with them that any other government would. In fact, the "new deal" philosophy in industrial relations can ultimately only speed up and make more decisive the application of those principles which would otherwise have been applied more gradually in this country.

The fundamental reasons for this must be fairly clear to any forecaster who has his feet on the ground. No labor organization, however extensive and powerful, and whether with or without governmental support, can extract from the productive system more than the real goods the workers involved produce, except temporarily at the expense of other groups. At any time the available effective labor, capital and natural resources yield only so much goods. Strikes and stoppages of production reduce the amount of goods available for the strikers and everyone else. When wages are forced up and work time is shortened, employment is decreased, prices are raised and the real purchasing power of labor and everyone in terms of goods is diminished. The groups of workers involved and all others, including farmers, can buy less. If strikers and others involuntarily unemployed as a result are supported out of public funds, the same consequences follow from the increased tax burdens placed on the rest of the community. A decrease in the amount of production or an increase in its cost anywhere in the system reduces the real purchasing power of the group that causes it along with all others, and if the effort to restrict production and increase costs is widespread the general standard of living is lowered. If wages are forced up generally and prices held down by government control, capital, including the savings of workers, is dissipated more rapidly than it normally is. New savings are discouraged and diminished and the future productive power of the community, upon which maintenance of the standard of living depends, is reduced.

The attempt of any productive group to increase its share of the total product at the expense of other groups and without an increase in its own productive accomplishment ultimately reacts upon that group along with others and reduces its standard of living. All movements of this kind are based on an illusion, and the universal illusion of labor organization activity is that in itself it has, in this or any country, actually been the means of raising the real wages of workers. The remarkable rise in real wages in the United States—over fivefold in the past century—has been the result solely of greater productive accomplishment of the industrial machine as a whole, not of the effort of a small organized labor minority to force higher (CONTINUED ON PAGE 89)


ACME

Modernized

FOR a good many years, now, it has been increasingly realized in modern industrial nations that the housing of the people constitutes a peculiarly complex and difficult problem. This is true primarily because the residential construction industry has lagged far behind most other industries in technical and economic development. In the United States, especially, the lack of organization and coordination in the various phases of home building and home financing has been a serious obstacle to that revival of the construction and related industries which is so necessary for our recovery from the depression.

A complete statement of the housing problem in this country must comprehend two separate but inter-related problems: (1) the engineering and architectural problem, which is that of bringing the technical processes up to date and thus reducing the cost of residential construction, and (2) the financial problem, which is that of developing and perfecting in the United States a national system of home mortgage financing. With the first of these problems I shall not attempt to deal in this article.

A real solution of the financial problem, which is to be the subject of the present discussion, will require a complete overhauling of our existing arrangements for the financing of home ownership. But even before such an overhauling can be accomplished, financing facilities must be provided whereby the alarming accumulation of arrears in home maintenance resulting from five years of depression can be made up.

The National Housing Act of the 73rd Congress, which became effective when approved by the President on June 27, 1934, is designed to accomplish both these purposes. Through its provision for credit insurance, loans at reasonable cost and with convenient terms of repayment have been made available to home owners to pay for needed repairs and improvements of their property. Through the provisions for mutual mortgage insurance and for the establishment of national mortgage associations, the foundations have been laid for a system of home mortgage financing, nationwide in scope, which should overcome for all time the difficulties and dangers which have beset the owners or prospective owners of homes heretofore. The act also contains provisions for insuring the savings in building and loan associations, up to $5,000 for each account, thus strengthening one of the most important and efficient elements in our present facilities for home financing; and there are included certain amendments to previously existing law, designed primarily to make the new legislation effective.

The program now under way in accordance with Title I of the National Housing Act is commonly referred to as the modernization and improvement campaign. These words are used with good reason; for the possibilities inherent in this program include not only the making up of arrears in home maintenance but also a substantial improvement in housing standards throughout the country, even in comparison with the standards prevailing before the arrears in maintenance began to accumulate. Indeed the repairs and improvements made possible are not limited to homes, but may extend to commercial buildings, barns, garages, or even to the building of fences or the digging of wells.

With the details as well as the basic principles involved in this phase of the activities of the Federal Housing Administration, most readers of BANKING are doubtless already familiar. Judging from the immediate favorable response to the invitation to participate, it appears moreover that a very large proportion of our ablest bankers have studied the plan for credit insurance and found it sound. Nevertheless, for the benefit of any who have not had time to think the matter through, it will perhaps be worth while here to examine briefly some of the more important aspects of the program from the point of view of sound banking practice.

Fundamentally, the procedure involved in making these modernization and improvement loans is in no wise different from that which every able banker follows as a matter of course. The character of the applicant for credit and his ability to pay are thoroughly investigated, and if found satisfactory the loan is made. It is a character loan, pure and simple; but so in effect are all sound loans, even though collateral or other security is taken, or a co-maker is required. It is true that when the banker has made an error of judgment as to character and ability to pay, additional security is sometimes of value; but such errors are not very common among careful bankers; they practically never occur often enough to involve anything like 20 per cent of the aggregate of all loans.

The provision for credit insurance is the unique feature of the modernization and improvement campaign. It amounts in effect to a full guarantee; for it is a

Housing Finance

By JAMES A. MOFFETT

Federal Housing Administrator

matter of common knowledge among bankers that straight character loans are among the safest of all loans. When this knowledge is considered in conjunction with the experience of instalment lending agencies, whose losses have rarely averaged as much as 3 per cent, it becomes clear that the full insurance up to 20 per cent of the aggregate amount advanced is far more than is really necessary for complete safety to the financial institutions making the modernization and improvement loans.

Banks should be able to make these loans with the certainty of realizing a moderate profit for themselves and with the consciousness of rendering the finest kind of service, not only to the individual community concerned, but to the entire nation as well. They have now been placed in a position to confound their critics, by showing that when a real opportunity is presented to furnish credit on a large scale without endangering the safety of their depositors' money, they are ready and eager to do so. All they require in order to demonstrate their willingness to meet their full responsibilities is that prospective borrowers of the right kind shall come in and make application for the loans.

Titles II and III of the National Housing Act contain the legal basis for fundamental and far reaching reforms in our previously existing methods of financing home ownership. They make possible the development of what may be properly referred to as a home mortgage financing system, in contrast with the scattered and disordered facilities which have been available heretofore. To make clear the extraordinary importance of this legislation and the revolutionary character of its potential consequences, brief consideration must be given to the evils it is designed to eradicate, as well as to the means whereby the new system is to be brought into being.

Most of the evils arise out of the fact that we have never had in the United States a real mortgage market. Except locally, in the thousands of separate communities, we have had no standards for maturities, for appraisals, for interest rates, or for the percentage of appraised values loaned—in short, none of the standardized procedure which would necessarily accompany an organized mortgage market. Certain types of institutions, such as the large insurance companies, the national and state banks and the building and loan associations, do have a few elementary rules to follow, either as matters of policy or of Federal or state law; but there is no uniformity even amongst these. The result has been that for the most part any institution making a mortgage loan has been obliged to do so in the expectation of having its funds tied up until the mortgage matured, but without any real assurance of being able to obtain them even then.

An inevitable consequence of this state of affairs has been a tendency on the part of lending agencies to insist upon short term mortgages, of not more than three to five years maturity. Indeed the national banks and some of the state banks have been forbidden by law to accept mortgages for a longer term than five years. To make home ownership under such conditions possible for people of moderate income, it has been necessary to grant mortgage loans with the understanding, express or implied, that they will be renewed again and again at maturity.

The trouble is that just when the home owner most urgently needs the privilege of renewal, the lending institution is most likely to find itself in desperate need of the money. For in all probability the same set of circumstances, usually a recession in business activity, that causes the borrower to require the renewal privilege, also forces the lending institution to refuse it. Wholesale foreclosures are likely to follow and then what started as no more than a minor slump in business becomes an appallingly serious depression. This sequence of events has occurred over and over again in our history. It was undoubtedly one of the outstanding causes of the depth and duration of the depression that began in 1929.

Another consequence of the lack of a broad market for mortgages has been the variation in different parts of the country in the availability and the cost of mortgage money. In some areas there is customarily a plethora of such funds, and investors seek in vain the safety and regularity of return of good mortgages. In other areas loans against even the soundest of first mortgages are either unobtainable, or, if obtainable,

Roger Steffan is director of modernization credit in the Federal Housing Administration

COURTESY ARCHITECT'S SAMPLES CORPORATION

THE COMPLEXITY OF MATERIALS, COSTS, QUALITIES

In a bulletin of information for banks the Federal Housing Administration says: "While the regulations do not require the financial institution to determine whether or not the owner has spent or intends to spend the money *wisely*, the soundness of the expenditure will naturally have a direct bearing on the property owner's willingness to pay the note. Therefore, in their own self interest, financial institutions should exercise care in seeing that the interests of the property owner are furthered by the transaction."

A multiplicity of questions on building materials is sure to arise. Bankers will need the cooperation of authorities on the subject.

the interest rates are exorbitantly high. There has been no simple and convenient procedure whereby prospective borrowers and lenders in different parts of the country could establish contact for their mutual advantage.

Still another thing which can be attributed, in part at least, to the lack of a mortgage market is the existence almost everywhere of a second mortgage racket. In the absence of standardized procedure with respect to appraisals, conservative lenders have tended to reduce lower and lower the percentage of appraised values they would advance against first mortgages. This has provided the opportunity, if not the absolute necessity, for the junior mortgage business.

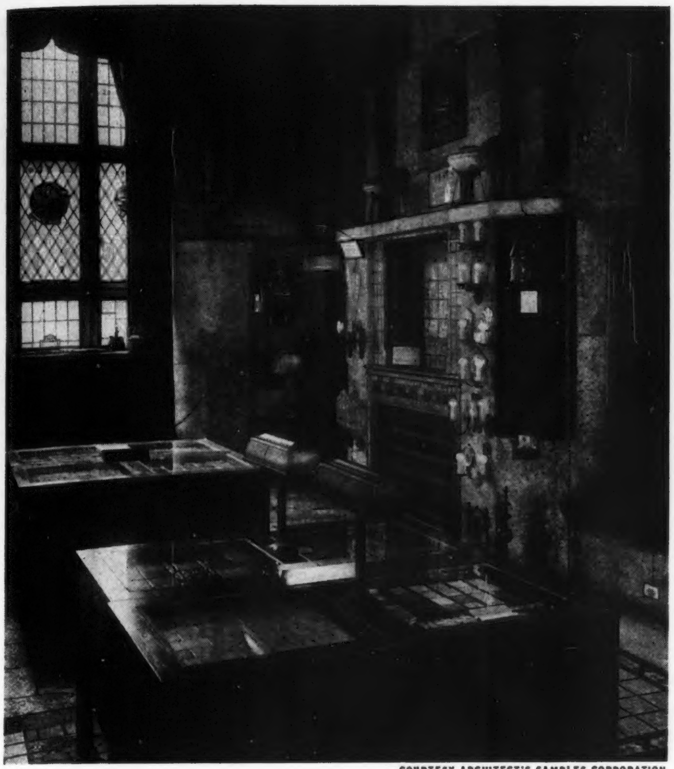
Speculative builders have cooperated, intentionally or unintentionally, with lending agencies which all too often are nothing better than loan sharks. Prospective home owners have been persuaded to buy property at prices far in excess of its real value, loading themselves down not only with short term first mortgages but with second, or third, or even fourth mortgages as well. These junior liens are also customarily for a short term, and the fees and charges in addition to the interest on them, both for the original advance and for renewals, are often outrageously large. To circumvent the usury laws, they are frequently bought outright by the lending agency at a big discount, which runs the true rate of charge per annum on the money advanced into extremely high percentages, although very likely the borrower does not realize this. Excessive cost of the junior liens seriously impairs the ability of the home owner to meet the charges on the first mortgage. Meanwhile, the common occurrence of junior liens with their high charges, combined with the tendency to inflate prices, causes lenders on first mortgages to reduce still lower the amounts they are willing to advance.

This vicious circle can be broken only by the setting up of an organized mortgage market and the creation of facilities for supplying against first mortgages a high enough percentage of soundly appraised property values to make junior liens unnecessary—in short, by the establishment of a genuine home mortgage system.

Such a system is being established as rapidly as possible under the provisions of Titles II and III of the National Housing Act. It is to consist of an arrangement for mutual home mortgage insurance and the establishment of national mortgage associations. These two phases of the system are complementary; both are essential to its successful operation.

The specifications laid down in the law for the insurance of home mortgages will themselves go far to establish the conditions for an organized market and to abolish the evils which have been common in our existing facilities. Insurance will be provided only for first mortgages, which must be fully amortized, may have maturities up to 20 years, and may be granted in amounts up to 80 per cent of the appraised value of the property.

Thus, when this type of insured mortgage becomes the standard practice, the difficulties and dangers inherent in short term mortgages will be eliminated and the economic and social justification for second or other junior liens will be done away with. The second mortgage racket should disappear, since no prospective home owner should be encouraged to buy property unless he is in a position to possess a clear equity of the 20 per cent of the cost not covered by the first mortgage. The necessary conditions will be established for the operation of a nationwide mortgage market, since from the point of view of a lender or an investor one insured mortgage will be essentially as good as


COURTESY ARCHITECT'S SAMPLES CORPORATION

another, no matter where the hypothecated property is located.

The national mortgage associations, provided for in the act, are to be large institutions, each having a paid up capital of at least $5,000,000. Their business will be to purchase insured home mortgages from anybody who wishes to sell them. Funds for this purpose will be procured by the sale of their own debentures issued against the security of insured mortgages. These debentures will be listed on the securities exchanges, so that funds may quickly flow from those areas where money is plentiful and cheap to those areas where it is scarce and dear. Thus the national mortgage associations may be expected to provide at all times a ready market for the insured mortgages held by individuals, corporations, banks or other institutions, wherever located, while at the same time their debentures will constitute a type of security eminently suitable for purchase by conservative investors everywhere.

Operating together, the arrangement for mutual insurance and the national mortgage associatons will constitute a coordinated national home mortgage financing system. Through the organized home mortgage market, the owners or prospective owners of homes everywhere will be placed in a position to borrow money under favorable terms and conditions, comparable with those which have long been available to railroads, public utilities and other corporations enjoying the privilege of having their bonds or debentures listed on the securities exchanges of our great financial centers.

Success of the new system will depend on the soundness and the reasonable cost of the mutual mortgage insurance. Soundness will be made certain, because the insurance will be based upon sound appraisals of the value of the mortgaged property and upon the collection of premiums sufficient to cover all conceivable losses. In its rules and regulations, the Federal Housing Administration will prescribe a standard basis for appraisals. This basis will be as sound as can be devised, and upon it there can be no question as to the soundness of first mortgage loans, even up to 80 per cent of appraised values.

The insurance premium, even at the maximum prescribed in the act—of 1 per cent per annum on the original face amount of the mortgage—will be reasonable when considered in the light of the lower interest rates it will make possible for the borrower. There should be no expectation, however, that the maximum premium will be continued when experience shows that it is no longer required. Interest rates are to be limited strictly to 5 per cent per annum on the credit actually from time to time outstanding, save in exceptional cases where the Administrator is convinced that a rate of over 5 per cent but not over 6 per cent will be required to get the loans made. But it should be remembered that these figures for interest rates also represent the maximum. There is every reason to expect that, once the investing public comes to appreciate the absolute safety and regularity of return of the insured mortgages and the debentures issued against them by the national mortgage associations, the current rates to borrowers will settle down to figures well below the prescribed maximum. With the new system in full operation, it is not unreasonable to anticipate that insured home mortgages will become the safest investment and carry the lowest rate of any securities in the United States except Government bonds.

To clean up the chaos in existing home mortgages will be the first task of the new system. Billions of dollars are now more or less badly frozen, because of the lack of an organized market or on account of loans previously made against excessive appraisals. Most of these mortgages will have to be refinanced. This will have to be done before a market can be created for the new mortgages, which will be necessary before the housing industry can be started up on a large scale. With the existing situation rationalized, by such writing down of nominal values as may be necessary and by the creation of genuinely sound insured mortgages, the groundwork will be laid for such a revival of building construction as this country has rarely seen.

The most hopeful aspect of such a revival is that it need not be a mere boom, but a permanent feature of our economic life. It is a fact well known to students of the problem that we have never had in America anything like the high standards of housing that our great potential wealth entitles our people to have. If the engineers and architects and builders will do their part in bringing the technical processes up to date and thus reducing the excessive costs of construction, the new financing system will make such standards possible.

Statism

SO-CALLED "Tories" look askance at certain Government policies because of qualities in them that seem foreign to American tradition. "New-dealers" are inclined to consider them proudly as their own original handiwork. Probably both groups are partially right and partially wrong. Economic news of foreign countries, muddling out of the depression like ourselves, lends color to the belief that certain fundamental ideas for recovery are rather generally in vogue.

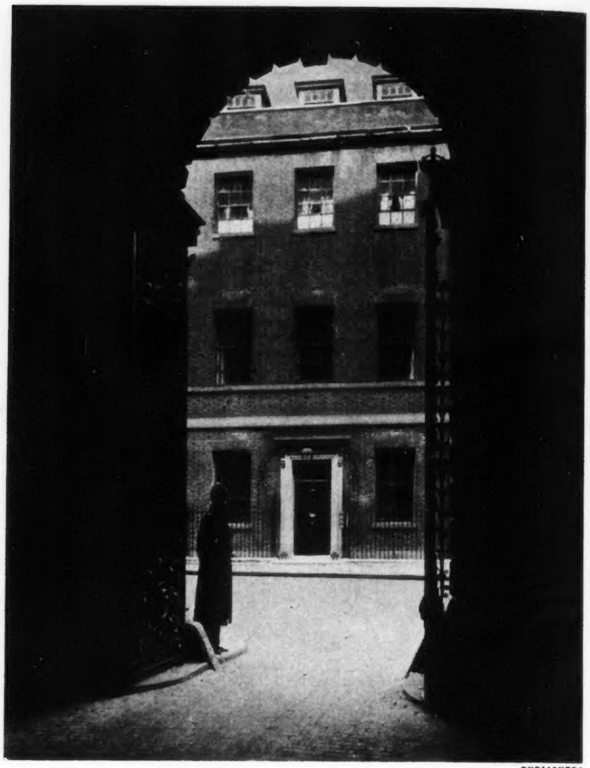
In many countries at some crucial time during the last few years the individual citizen has thrown up his hands and asked his government to step in. The crisis past, government is loath to step out. This condition may be called "statism". There have been several illustrations of expanding state power and activity in foreign lands during the past few months.

In Great Britain a bill was introduced to give statutory effect to rates of wages agreed upon between organizations representative of a majority of employers and workers in the cotton manufacturing industry. The British Parliament has provided a subsidy of £2,000,000 for tramp steamers, provided that the ship owners formulate a scheme satisfactory to the government for controlling competition in this field.

Nearer to home, we note that in Canada a movement has been under way for introduction of codes of fair practice for various industries. In British Columbia the 8-hour day has been officially established. In Manitoba minimum hourly wages and maximum working hours have been fixed by law for private and public building construction. In Quebec minimum wages for women workers have been established. In essence the Dominion Notes Act of Canada is an experiment in currency inflation to provide funds for public works, on much the same principle as is being applied in the United States.

By a series of decrees in France the percentage of foreigners who may be employed in certain industries is limited, and overtime work in various industries has been suspended. There is likewise something familiar in the French legislation which authorizes railroad companies to borrow from the social insurance fund for electrification and other construction purposes, and provides for government borrowing to subsidize local relief work. France is struggling with a surplus of wheat and has issued regulations to stimulate wheat export.

The trend seems most familiar in Germany. There the employment of labor is now completely regulated by



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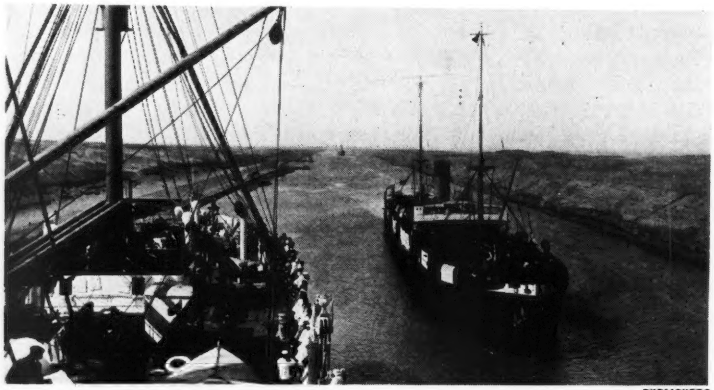
No. 10 Downing St., London

Shipping through the Suez Canal



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law. Under the National Labor Regulation Act every business concern of a certain size is required to have rules of employment covering the entire force, the rules to be drafted by the head of the concern. Hours of work in certain industries are strictly limited, and the movement of workers from rural districts to towns is restricted. In certain branches of the textile industry the expansion of existing factories, or opening of new plants, or increase in prices has been prohibited. Violations are subject to punishment by fines or by closing factories and practically dispossessing the management. No appeal to the courts is possible. The same edicts amalgamated all tire manufacturing concerns and prohibited opening of new plants or the manufacture of tires by other concerns.

EUROPEAN

In the Rhine Valley

Germany also has her farm problem. During the past few months she has undertaken to subsidize domestic production of fodder and to regulate the cattle market. The sale of potatoes has been placed under government control. Price increases in necessary articles of daily consumption have been prohibited except by official permission. Control boards have been established for imports of non-ferrous metals with power to fix prices and quotas. Recent reports indicate that the licensing of imports and exports in Germany will be made applicable to all commodities.

So the tide spreads.

In Italy legislation relating to weekly rest periods was extended to agricultural workers. Formerly it applied only to workers in industry and commerce.

In the Netherlands government control of agriculture is increasing in order to obtain prices not below production costs.

In Spain an act provides for increase in subsidies granted to unemployment insurance funds, systematic execution of public works and encouragement of private initiative in the building industry.

In Rumania an act provides that every enterprise must have a Rumanian staff to the extent of at least 80 per cent in each of the groups into which the act divides employed persons.

The government of Switzerland has decided that the Weekly Rest Act of 1931 shall come into force on September 1, 1934.

In Belgium a comprehensive reform of the banking system, with a view to protecting savings and deposits, is being introduced. It will provide separation of security affiliates from deposit banks.

In Czechoslovakia a decree prohibits cessation of work in industrial undertakings or dismissal of employees without the consent of the government. A corn monopoly has been established. The government has attempted to restrict pig farming in proportion to the fodder at hand. The milk trade is regulated and a timber syndicate has been formed in that industry.

PUBLISHERS

PARIS

In France, which we usually imagine has been quarantined against a "new deal" epidemic, government control of finance companies has been established by executive measures pending the passage of appropriate regulatory legislation

United States Bonds

By EDWARD H. COLLINS

THE best index that we have of the amount of commercial credit being extended by the banks to business is the item "all other loans" in the weekly bank statement. For seven months following the bank holiday this item showed a gradually rising tendency, climbing by mid-November from $4,600,000,000 to slightly above $5,000,000,000. In the ensuing eight months, however, that trend was reversed, and by the third week in July "all other", or commercial, loans had fallen to only a little above $4,400,000,000, a new low figure for recent years.

The more vocal critics of the banks did not miss this latter development. They were quick to point to the declining loan figure as fresh evidence that the banks were neglecting their responsibilities to trade and industry, and were seeking liquidity and safety in Government paper. Even the banks themselves, through the President of the American Bankers Association, raised the question last month of whether their efforts to expand credit were not being needlessly impeded by bank examiners who had been "shell-shocked" by the bank failures of recent years and were harassing bankers unduly with their criticism of "slow" loans.

That some bankers have become over-cautious as a result of the severe strain on confidence imposed by the long period of deflation of bank assets during 1929–32 is quite probable and, on the whole, quite understandable. On the other hand, it seems reasonable to believe that in an equal number of cases the pressure to lend, arising from high reserves and low money rates, must be a consideration of at least equal importance in bankers' minds. Therefore the conclusion seems to this writer to be all but inescapable that the decline in commercial loans is less the result of unwillingness on the part of bankers to lend than a reluctance on the part of potential sound borrowers to go into debt at the present time.

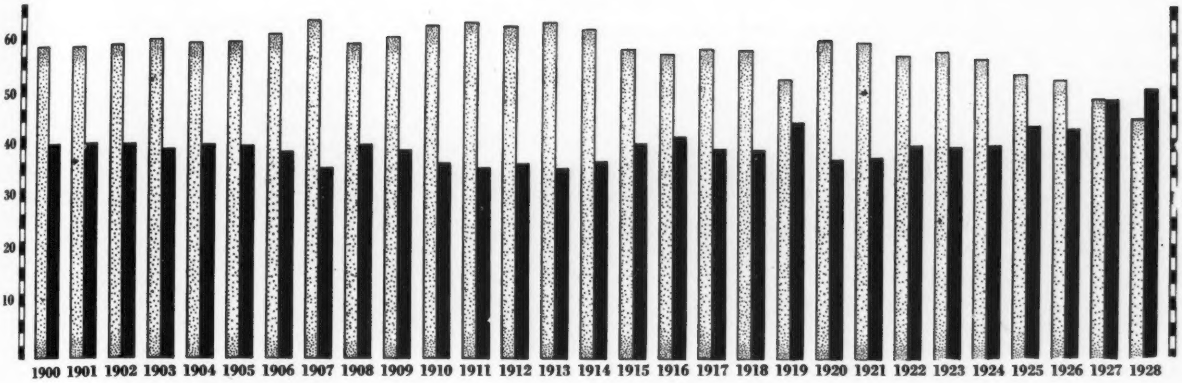
But there is something more important that needs to be pointed out than the fact that it is all too often the borrower, rather than the lender, who is apt to be hesitant at times such as the present. That something is the concentration of the critics of the banks on the single item, "commercial loans". To listen to, and read, those who carp at the banks for investing in Government securities one might think that the only money that did any work was the money that went into so-called self-liquidating paper—paper, that is to say, backed by personal security, merchandise, or warehouse receipts. Of course this is a totally fallacious view.

Rightly or wrongly, the present Administration has chosen to pursue a liberal spending program as a means of starting up the wheels of recovery in the United States. But someone has to underwrite and finance the Government; and that someone in this instance happens to be the banks. At the beginning of the Roosevelt régime it was estimated that total bank holdings of Government paper were, in round figures, $11,000,000,000. Today the figure is placed at approximately $15,000,000,000. The difference between these two totals—$4,000,000,000—roughly represents credit that the banks have extended to the Government for the purpose of financing recovery. This is a productive method of credit expansion just as much as would have been a corresponding expansion of commercial loans.

It is not simply in the present controversy over banking policy, however, that we find prevailing this narrow concept of American banking as synonymous with, and coextensive with, the short term financing of commercial enterprise. It is a concept that is held probably by a large majority of informed persons, even within the banking community itself; and it exists because most people have not troubled themselves to observe how far afield American banking has gone since it was originally conceived along those rigid lines.

The Bank Act of 1863 was written with the idea of confining banking largely to this type of operation, while the long series of laws enacted in the ensuing years, even including the Federal Reserve Act, sought to maintain the tradition. And, if we glance back over the portfolios of the banks in this pre-war period we find the tradition fairly closely adhered to. In the first full year of the Federal Reserve System, in 1915, for example, we find that loans greatly predominated over investments, constituting 76.3 per cent of the total assets of national banks, and that of these loans 76.8 per cent were either unsecured loans or loans secured by personal security, merchandise, or warehouse receipts. Coming down to 1928, however, we find a striking change in the portfolios of the national banks. We find that loans had fallen to the point where they represented but 63.2 per cent of all earning assets, and that of these loans no less than 33.8 per cent represented loans secured by stocks and bonds, while another 8 to 9 per cent represented loans on real estate.

The fact is that for nearly a generation our banking has been a highly protean thing, its outstanding characteristics undergoing profound changes from time to time—changes that reflected and in turn affected momentously American mass psychology and American business and financial methods. Curiously enough, it was not until



Secured (in solid black) and unsecured loans of national banks, from the Comptroller of the Currency

the formulation of the Glass Act in 1932 and 1933 that any effort was made, legislatively, to recognize the changed nature of our banking processes.

With the heavy recent investments of our banks in the short term paper of the Government, our banking methods have been freshly and sharply reoriented. They have been called upon to finance the Treasury through the recovery effort. Yet they have been similarly reoriented on at least three other occasions over the last twenty years. These occasions were: (1) the financing of the war; (2) the financing of real estate speculation after the war; and, finally, (3) the financing of business expansion and speculation through the securities markets.

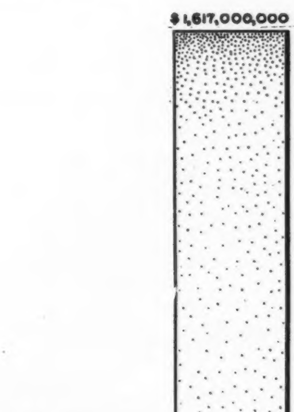
In none of these major enterprises—enterprises which have perhaps permanently affected bank portfolios—has the old mechanism of commercial paper been important. The war was financed chiefly by the purchase of Government securities by the banks and the extension of loans by the banks to individual purchasers of these securities; the real estate booms (chiefly urban) were financed in two ways—through loans secured by real estate and through investments in real estate securities; the financing of the enormous business expansion of the late Twenties was accomplished by brokers' loans and non-broker loans secured by stocks and bonds.

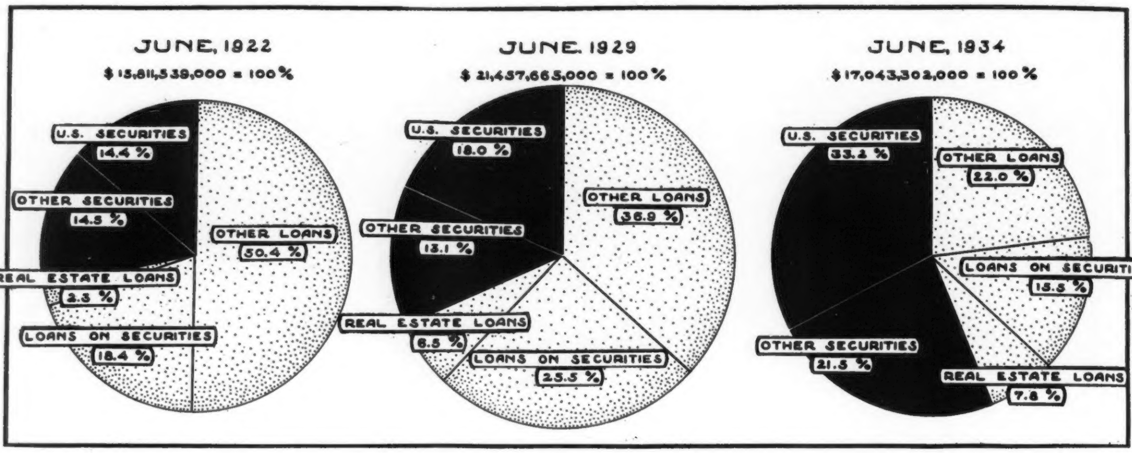
The changes that have been wrought in our banking portfolios and our banking concepts as a result of these major influences of our banking history, as Professor H. Parker Willis observes in his recent comprehensive study, "The Banking Situation", have been "almost revolutionary." They have included (1) a drift away from the old dependence on 30-, 60- and 90-day advances to business; (2) an immense increase in the importance of investments, first in the field of Governments, later in domestic and foreign securities generally; (3) the invasion of the field of long term real estate loans; and, finally, (4) a heavy expansion of loans secured by stock and bond collateral.

Although state banks were permitted a good deal of liberality in the field of investments, it was not part of the

Loans of national banks eligible for rediscount, from figures of the Comptroller

Real estate loans of national banks, from the Comptroller's figures





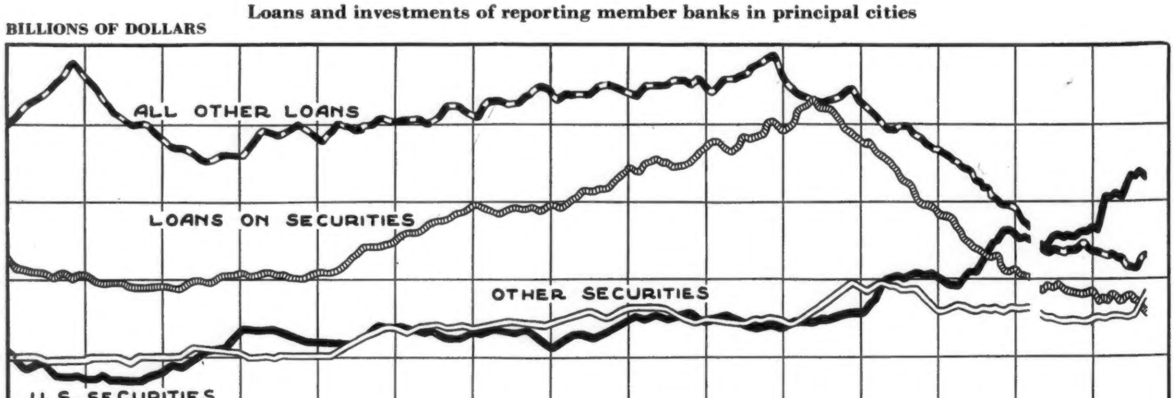
Loans and investments of national banks, as shown by reports of the Comptroller of the Currency

theory of the National Bank Act that commercial banks under its aegis should hold securities. Under an opinion of the Comptroller, however, national banks did make such purchases, making it a practice, however, to confine themselves for the most part to high grade domestic corporate bonds and United States Governments. The Governments at that time were investments chiefly in name only: they were held as backing for national bank notes. A study of the distribution of bank investments, exclusive of Governments, by Willis, shows that in 1909 state, county and municipal bonds accounted for 9.4 per cent of the investment portfolio, railroad obligations 20.6 per cent, other public service corporation bonds 9.1 per cent, and miscellaneous bonds 10.3.

The McFadden Act had much to do with stimulating investment in securities by the banks. This Act, passed in 1927, formally recognized the investment portfolio. Meanwhile, two modifications of the Federal Reserve Act contributed materially to the expansion of security purchases. One of these, the opening up of the Federal Reserve to Government paper, had the effect of encouraging banks to keep on hand a large supply of Governments, not so much as investments as for convenience in case it was necessary temporarily to obtain additional Reserve bank credit. The other, the modification of the law in 1919 whereunder member bank reserve requirements were materially reduced, put the banks into possession of huge excess reserves and started them looking around for uses for these surplus funds.

Before the war national banks held slightly more than $2,000,000,000 in bonds, of which roughly $750,000,000 represented Government obligations held primarily for circulation purposes. During the war holdings of Governments were greatly expanded, with the result that the investment portfolio of national banks alone stood in 1921 at $4,025,000,000, while investments of all commercial banks amounted to $8,-406,000,000. In the ensuing ten years, however, chiefly as a result of investments in securities other than Governments, national bank note investments reached roughly $7,000,000,000 and investments of all commercial banks $13,700,000,000. In this post-war pe-

Loans and investments of reporting member banks in principal cities



With the heavy recent investments of our banks in the short term paper of the Government, our banking methods have been freshly and sharply reoriented. They have been called upon to finance the Treasury through the recovery effort. Yet they have been similarly reoriented on at least three other occasions over the last twenty years. These occasions were: (1) the financing of the war; (2) the financing of real estate speculation after the war; and, finally, (3) the financing of business expansion and speculation through the securities markets.—The Author

riod, with its huge stock market boom, the investment portfolio of all banks expanded by more than 60 per cent, and, to emphasize the dwindling importance of commercial loans, the latter actually fell off 17 per cent.

Whereas corporations had financed themselves previously by bank loans, they took advantage in the easy money period of the '20s to raise funds by the sale of securities. An idea of the change which this brought can be had from the fact that the average quick assets of some 700 companies showed an increase between 1922 and 1928 from $11,700,000,000 to $15,500,000,000, while their average bank loan fell from $929,000 to $582,000. At the same time, there arose during this period the large finance companies such as Commercial Investment Trust and General Motors Acceptance to assume functions which might under other conditions have been handled by the commercial banks.

If this sudden and profound change in the direction of business financing resulted in the banks of the country seeking an outlet for their deposits in securities, both foreign and domestic, it also gave rise simultaneously to the amazing expansion of another item in the bank portfolio—loans against securities. Street loans, placed by New York City reporting member banks for the purpose of carrying speculative issues, which had reached but $1,400,000,000 in the "boom" period of 1919, rose to well over $9,000,000,000 at the peak of the 1929 speculative orgy.

Here, then, we have had three distinct shifts in the direction of American banking practice: first, the rise in bank holdings of investments in the form of Government securities during the war; second, the rise in holdings of non-Government securities in the post-war, easy money, period, as industry financed itself through the stock market instead of through the long established channel of commercial loans; and, third, the enhancement of that portion of the loan portfolio comprised of loans secured by stocks and bonds. It remains only to discuss one other such phenomenon, namely, the drift of the banks into real estate.

Needless to say, real estate loans had no part in the original conception of banking in the United States. The banks, however, found pretexts here and there to engage in the practice to a limited extent fairly early. The mutual savings banks did not spread very widely over the country, and they were about the only recognized medium for real estate financing. The demand for banking facilities, especially for financing farming enterprises, became serious early in the twentieth century, with the result that recognition of this growing need was given in the Federal Reserve Act. That act provided that loans up to 25 per cent of capital and surplus or 50 per cent of the value of improved farm lands might be made up to five years.

This was liberalized in 1916 so as to include non-farm land as well, though only up to one year. But in the post-war period, what with the decline in the demand for commercial paper and the need for finding an outlet for bank funds, the pressure increased once more, and in response there emerged the McFadden-Pepper Bill. This lengthened maturities on non-farm lands to five years. The banking system was thus ripe for the boom in real estate which started in Florida and swept over large areas of the nation. How important real estate loans came to be in national bank portfolios may be seen from the fact that such loans, which had stood at barely $150,000,000 in 1915 and only $250,000,000 as late as 1921, had crossed the $1,600,000,000 mark by 1932. Holdings of all banks made an even more impressive showing. As of 1930 they stood at almost $10,500,000,000. Of this total, national banks held 14.1 per cent, state commercial banks 15.5 per cent, loan and trust companies 12.5 per cent, stock savings banks 4.9 per cent, and mutual savings banks 52.8 per cent. Holdings of national banks constituted but 1.7 per cent of their loan portfolio in 1920; by 1932 they constituted 15.7 per cent.

It will be seen from all this that the national banking system has moved far out of its original orbit. So far as this article is concerned, it is not particularly concerned with the right or the wrong involved. The point the writer has sought to make is that since the war banking has not been static in this country. This being the case, to attempt to interpret the banking figures in prewar terms is futile.

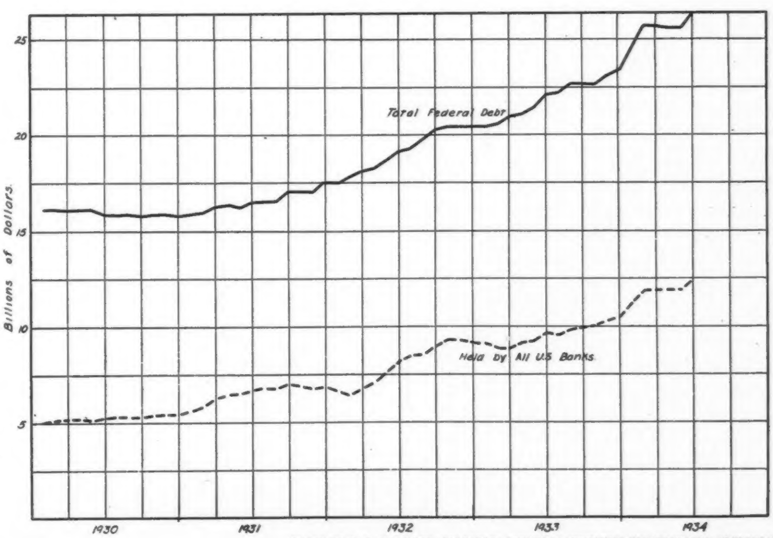


CHART BY E. C. HARWOOD, DIRECTOR, AMERICAN INSTITUTE FOR ECONOMIC RESEARCH

The Mobilization of Capital

By T. P. CRAMER, JR.

Mr. Cramer is secretary of the Oregon Bankers Association

THE extent to which bankers generally cooperate with the Federal Reserve banks and Reconstruction Finance Corporation, particularly the former, in making loans to industry, may determine to a considerable extent to what length the next session of Congress will go in revising the Federal Reserve System. If loans to industries do not increase under the provisions made possible last June, bankers may expect radical changes.

There is no doubt that banking legislation, actual and prospective, is taking us constantly closer to Government banking. There is plenty of evidence that the Federal Reserve System with its regional banks, non-political supervision and ownership by member banks may, in the not far distant future, be facing a fight for its very existence. The Administration is extremely desirous that these loans be made where employment may be stimulated. If banks generally and members of the Federal Reserve System particularly do not cooperate, a way will undoubtedly be found to accomplish the result.

The above statements are not threats. They are a summary of the honest thought of the leaders of finance and industry from the Atlantic to the Pacific coast, including officials of the Federal Reserve Board, Federal Reserve banks and the Reconstruction Finance Corporation. Beginning about August 1, the movement for utilization of these loan agencies has gained considerable headway. Up to August 4 the Reconstruction Finance Corporation had disbursed approximately $4,000,000 in 41 loans, while the statement of the Federal Reserve Board for that week showed but $5,000 disbursed, that being through the Federal Reserve Bank of Minneapolis. The Federal Reserve Board statement for September 5, five weeks later, shows $992,000 actually paid out to industries, with $491,000 additional authorized in commitments for loans through banking channels. As the movement now gains headway, the general thought seems to be that commitments will increase at a rapid rate.

Early in September, approved loans, including those approved and awaiting certain formalities for disbursement, passed the $17,000,000 mark. Of this total, $10,661,000 had been approved by the R.F.C. and upward of $6,000,000 by the Federal Reserve banks. The often repeated statements that industries do not want loans and that neither of these agencies will make more than a limited few are clearly refuted by the fact that in the twelfth Federal Reserve district alone there were on September 1 over 1,000 applications for such loans in various stages of consideration, a very substantial number of which have since been approved and are awaiting only signatures by banks on participating agreements before actual disbursement.

No loan is too small; witness for example one for $1,000 in which a commercial bank shared on a 50-50 basis. Others range up to a half million or more. Earlier statements that business was improving so much that it did not need these loans and that the terms were so strict that few businesses could comply apparently did not diagnose the situation correctly.

The figures covering disbursements are not impressive, however, when it is recalled that Congressional action gave the R.F.C. a total of $300,000,000 for this purpose, and authorized the Federal Reserve banks to use their available surplus of $140,000,000, plus the same amount of surplus previously paid in to the F.D.I.C., if necessary. The amount available for use in each Federal Reserve district is limited to the part of the above total of $280,000,000 originating in that district.

Cooperation in disbursing these loans may be greatly speeded by the announcement through the press by Chairman Jones of the R.F.C. that his organization would give a 100 per cent guarantee on direct industrial loans made through regular banking channels on which the R.F.C. entered into a participation agreement. Such procedure, of course, gives banks a guaranteed loan, completely liquid, and with a satisfactory interest return.

There are loans in practically every banking community which the prudent banker hesitates to make for one reason or another, which are or may be made eligible through either one or both of these agencies. Banks can do themselves a good turn in the way of income through interest, and industry and business generally inestimable good, by acquainting possible borrowers with the method in which these loans are made.

Recent amendments to bankruptcy laws, deferred payment agreements, and so on, make reorganizations possible whereby businesses that are now poor credit risks, badly involved, or even insolvent may be put on a solvent basis and obtain working capital.

A brief comparative summary of the two types of loans and requirements of each follows:

DATE OF ENACTMENT

F.R.S. — June 19, 1934.
R.F.C. — June 19, 1934.

PURPOSE

F.R.S. — To supply working capital to small and medium-sized businesses and to maintain and increase employment.

R.F.C. — To maintain and increase employment and to aid solvent industrial concerns when credit is not otherwise available at banks.

HOW MADE

F.R.S. — Directly by Federal Reserve banks or through other banks, trust companies or financing institu-

tions. Banks, etc., need not be members of the Federal Reserve System.

R.F.C. — Directly to applicants by the R.F.C. or by participation in loans with banks. Latter are ***without liability*** on part of bank as endorser or guarantor.

Where

F.R.S. — By each of the 12 Federal Reserve banks (not branches) without reference to Washington. Advisory committee of five in each district to investigate and recommend.

R.F.C. — By each R.F.C. agency with final approval resting in Washington.

Amount Available

F.R.S. — Surplus of Federal Reserve banks as of July 1, 1934 plus amount paid in to F.D.I.C. Total, $280,000,000.

R.F.C. — $300,000,000. Not over $500,000 to any one borrower.

Other Restrictions

F.R.S. — Loans cannot violate Sec. 22 of Federal Reserve Act (penalty section re loans to examiners, officers, etc.).

R.F.C. — Loans may be made only when offering reasonable assurance of continued or increased employment.

Information Required

F.R.S. — Complete financial statement, history of business and management, volume of business, banking relations, purpose of loan, comparative statements for five years.

R.F.C.—Applicant must submit general information re business, purpose of loan, description of collateral, comparative statement and income and expense statement for 10 years.

Direct Loan Requirements

F.R.S. — Funds must be for working capital. Loans cannot be made for purchase or building of plant, or purchase of machinery or equipment. Loans will not be made to pay off existing indebtedness or for carrying real estate. Interest rate determined by institution making loan. Must be to established industrial or commercial businesses; for not to exceed 5 years; on sound and reasonable basis to applicants whose credit standing justifies loan. Only under exceptional circumstances when loans are not available on reasonable basis through usual sources.

R.F.C. — Funds must be for working capital. Under exceptional circumstances only, and in limited amounts, parts of loans may be used to pay off existing indebtedness, taxes and for construction or repair. Loans cannot be made for development purposes, to finance installment sales, imports or exports, to operate receiverships or to inactive concerns. Must be to applicants who were in business prior to 1/1/34; for not to exceed 5 years; to solvent applicants on adequate security. Proof must be offered that credit is not available at banks for loans of character applied for. Interest will be at prevailing bank rate for similar loans. Applicant must be complying and continue to comply with N.R.A. code for his industry and agree that all contracts and purchases made by him will be with those also complying. During life of loan, no dividends may be paid except as may be determined by R.F.C. Same for salaries.

Indirect Loan Requirements

F.R.S. — Same general requirements as for direct loans. Each financial institution offering same must obligate itself for at least 20 per cent of any loss sustained by Federal Reserve bank on such loan or carry at least 20 per cent of loan itself with payments in retirement applied pro rata. Loss established when Federal Reserve bank charges off loan or portion thereof and bank then liable for proportionate part of loss. On loans discounted, charge will be 3 per cent to 4 per cent on that portion of the loan on which the loaning bank continues responsible. Four per cent to 5 per cent on that portion of the loan which the Federal Reserve bank assumes. On commitments not immediately used, not over 2 per cent on annual basis on portion on which bank is relieved. Federal Reserve banks will not ordinarily require subordination of existing indebtedness.

R.F.C. — Same general requirements as for direct loans. Applicants must be unable to secure entire loan from banks. Loans already made are not subject to participation, but additional loans may be made. Interest on loan may not exceed 6 per cent. Interest on participation agreement with banks, ½ of 1 per cent per quarter up to 1 year; 1 per cent of R.F.C. participation for time thereafter. Deferred participation agreements effective for two years may be made, during which time banks may ask R.F.C. to assume or latter may buy all or any portion of loan made thereunder. Participation notes and collateral therefor must be lodged with Federal Reserve Bank of district.

Big businesses usually have unimpressive beginnings. Many years ago the H. J. Heinz Company began its career in this building

BROWN BROS.

The Cost of Money in the

THE VARIETY OF BANKING FUNCTIONS: ". . . there was some expectation that the Reserve authorities would recognize the variations in interest charged customers and the rate banks could afford to pay for deposits in relation thereto, and would fix a different maximum rate for the several districts . . .

"The very complexity of the problem, however, and the scope of American banking rendered this inadvisable if not impossible."

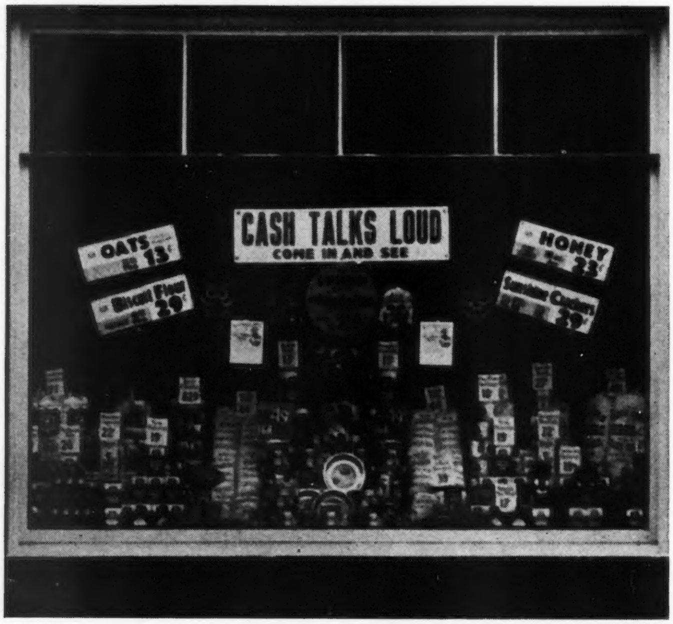
CONTROVERSY over interest on deposits is an old, old story. Just at present, however, the controversy partakes less of criticism than of an effort to reestablish a proper balance.

There has been some agitation to have the Federal Reserve Board fix rates of interest. One obstacle to that course has been the geographical complexity of American business and, therefore, banking—the virtual impossibility of fitting rates to the requirements of banks in different crop and industrial localities.

One possibility which seems reasonable is that rates can be determined by clearinghouse action, which has already proved effective on a limited scale. With bank profits almost non-existent and with the trend of interest rates haphazardly downward, there is obviously a need for some sort of cooperative action. Within the present banking framework, the clearinghouse is a logical agency.

For several years previous to the World War banks in the United States endeavored to build themselves up by competing for deposits, and the rates they paid for the latter were gradually increased. The war intensified this movement and, after some wavering in the post-war years, the tendency was emphasized in the boom period of 1926 to 1929. In the latter year when call money ranged as high as 14 per cent, when open market paper was earning from 5½ to 6 per cent and when even short term Government paper was earning around 3¾ per cent, the trend reached a climax. Rates were then established which have been difficult to rectify.

The Small Store Owner



NESMITH

Much had been accomplished by cooperation among the banks up to the time of the passage of the Banking Act of 1933; much more was accomplished in the passage of that act. Now that business depression has brought the earning power of money to the lowest point in American history much more needs to be done. The only question seems to be as to how and when it may be done.

Interest rates which banks can pay customers naturally depend upon interest rates which banks can charge customers. The wide variation necessary in the former can be appreciated by a comparison of rates charged customers by banks in various parts of the country. In January, 1932, interest rates in New York were slightly above the average charged during 1926 and 1927; those in other parts of the country were slightly lower. Taking the rates charged customers by New York City banks in January, 1932, for comparison it is found that by January, 1934, the average had fallen from 4.71 to 3.58 per cent and by July, 1934, to 3.30 per cent. In eight other northern and eastern

United States

By GEORGE E. ANDERSON

cities the rate had fallen from 5.07 to 4.65 per cent last January and to 4.15 per cent by July, while in 27 southern and western cities the average rate had fallen from 5.61 to 5.40 per cent in January and to 5.07 per cent by July.

In the East and North, accordingly, rates charged customers have fallen a half of one per cent in the first seven months of the current year. These are average rates weighted according to the volume of loans of each bank making a report and the comparative volume of loans in each city. The actual variation in rates charged by the banks, of course, was much greater, and the variation in the decrease in rates charged in recent months compared with two or three years ago is also greater. At the present time interest charged customers by banks varies all the way from 3 per cent or less on highly desirable loans in the metropolitan centers to 10 per cent or more on livestock and similar loans in some parts of the country.

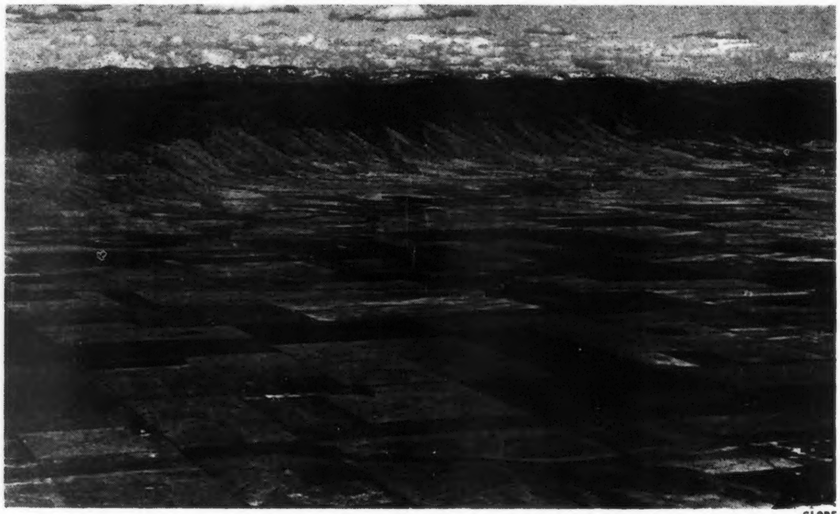
This variation, indeed, seems to be greater now than ever before, certainly considerably greater than when the Federal Reserve Board a year ago fixed the maximum rate of interest which might be paid upon time and savings deposits in member banks. At the time the maximum rate was fixed there was some expectation, and perhaps some hope, that the Reserve authorities would recognize the variations in interest charged customers and the rate banks could afford to pay for deposits in relation thereto, and would fix a different maximum rate for the several districts or even go so far as to fix maximum rates for all the several classes of savings and time deposits in each district.

The very complexity of the problem, however, and the variety and scope of banking functions rendered this inadvisable if not impossible. The Reserve Board confined its action to fixing the maximum of interest to be paid upon any class of deposits at 3 per cent. It is now being criticized by some banks for having fixed the maximum too high, thus leading depositors to expect the maximum interest whether local conditions justify it or not; it is being criticized by others for fixing the rate too low, hampering them in their competition with other institutions—as, for example, the mutual savings banks in some districts.

The fact is, though many bankers do not care to admit it, that the concern of banks in the matter of deposit costs varies geographically, with the size of banks and the nature of their deposits, with local loan conditions, with customary interest rates charged customers and with other factors. Facing the keenest sort of competition locally, banks over any considerable extent of territory, such as a Federal Reserve district, find it difficult if not impossible to agree readily as to what rates can or should be paid. Since they cannot settle the matter among themselves by agreement, some are disposed to shift the responsibility upon the Federal Reserve Board and secure by regulation and governmental interference what they cannot secure by mutual agreement.

This phase of the subject has been brought to a direct issue by the action of all banks, member and non-member, in the third Federal Reserve district in memorializing the Reserve Board, the Comptroller of the Currency and the administration of the Federal Deposit Insurance Corporation to fix a new maximum rate which may be paid upon deposits of any sort and particularly to fix definite maximum rates upon various classes of savings and time deposits within or with relation to the maximum rate; for while it is easy enough to fix a maximum rate for all deposits this is but part of the story, the lesser part at that.

NESMITH



GLOBE

"... the matter of deposit costs varies geographically, with the size of the banks and the nature of their deposits ..."

Agriculture

It is evident that even where a maximum rate of interest is fixed for such deposits as a general class there is abundant room for the jockeying of rates within the class in a manner to enable an individual bank, if it so wishes, to cut under its competitors. For this reason and also because many owners of time deposits have insisted upon receiving the maximum rate of 3 per cent whatever may be the conditions of their deposit, the bankers of the third Reserve district voted, by a fairly narrow margin, to ask the Reserve Board to fix definite maximum rates for each class of time and savings deposits, i.e., (a) savings deposits as to which notice of withdrawal may be required; (b) savings deposits as to which 30 days or more notice is actually required; (c) time certificates of deposit payable one year or more after date; (d) time certificates of deposit payable in from 31 days to three months, four months to six months, seven months to nine months and nine months to eleven months; (e) time deposits, open account; and (f) postal savings deposits. The last named class, of course, involves the question of whether the Reserve Board has authority under the Banking Act of 1933 to fix a rate to be paid upon postal savings deposits in commercial banks different from that fixed in the present regulations of the Post Office Department governing postal savings deposits.

There is no question that under the law the Federal Reserve Board has the right to fix definite rates upon all classes of deposits as requested by the third district bankers; perhaps there may even be an implication in the law that it is expected to do, so as the virtual censure of the Board by the third district bankers seems to suggest. One need not linger long in Federal Reserve circles in Washington, however, to obtain the impression that the reasons which confined Reserve action in August last year to the establishment of a maximum rate are applicable to the present situation. The impression is very strong that the Reserve authorities are loath to attempt to regulate the action of the banks in the matter of interest on deposits, especially in view of the rather well founded contention that the banks are already too much under the domination of various governmental agencies and that the Government is attempting to run their business for them. The feeling seems to be that while many bankers would now be glad to have the Reserve Board settle the question of rates for them, since they are unable to agree upon rates themselves, the banks later would resent the Reserve's control and ask to be relieved of any restrictions it might place upon them at present.

The considered position of the Federal authorities is yet to be announced, but enough has leaked out of official circles to indicate that in the opinion of the supervisory authorities the matter is one of self-government for the banks. It is true that the Banking Act of 1933 lays upon the Federal Reserve Board the duty of "fixing" rates on time and savings deposits and determining classifications of deposits, but the feeling of the Reserve authorities seems to be that in fixing a maximum rate of interest and defining classifications of deposits it goes as far as is practicable and that to establish fixed rates in each class of deposits at all times, even varying them geographically, would be an undue interference with the banks' liberty of action.

This attitude has considerable support among the bankers themselves and this support is likely to be decisive in determining the attitude of the Reserve Board, the Comptroller of the Currency and the Federal Deposit Insurance Corporation authorities. It may be noted that the referendum vote of all banks in the third Reserve district following the original meeting of the bankers to consider memorials to the Reserve and other Federal authorities on the subject showed a rather evenly balanced difference of opinion. The referendum upon the proposal to do away with the postal savings system showed approval of 602 banks, disapproval of 97, with 35 banks not voting. The resolution favoring the reduction of interest on postal savings deposits and more stringent rules governing interest and withdrawals was approved by a vote of 649 to 50 with 35 banks not voting. The resolution calling upon the Reserve Board to proclaim a lower maximum rate of interest on specified time and savings deposits was approved by a vote of only 391 to 329 with 14 banks not voting. The proposal that the Reserve Board proclaim 2½ per cent interest as the maximum rate for all member banks in the third

district had even less support—377 to 350 with 7 banks not voting.

Nor was there much question as to why this division of opinion existed. The smaller banks of the district were frankly afraid of losing deposits. Many claimed they could make money after paying 3 per cent. It was evident that although many of the banks cannot use deposits obtained at present rates profitably there is always the hope among them that in time they may be able to do so. There is also a fear on the part of many of the banks that a loss of deposits resulting from a lowering of interest rates thereon may be taken by the public as an indication of distrust on the part of depositors and thus lead to other withdrawals of a more serious nature. The strongest sentiment in favor of interest reduction came chiefly from very strong large banks which not only are, to say the least, above suspicion but which also are in a position to lose deposits without loss of either prestige or profits. It should be noted on the other hand that in most cases where banks and especially clearinghouses, even in the third district, have taken independent action and reduced deposit interest rates the loss of deposits has been slight if any.

The establishment of the maximum rate of 3 per cent on time and savings deposits by the Federal Reserve Board a year ago was much more of a radical reduction for the country as a whole than was generally appreciated at the time. The annual survey of interest rates on deposits of the Bank Management Commission of the American Bankers Association reviewed in the April, 1933, number of the JOURNAL showed that in the period immediately previous to the banking holiday the average rate on savings deposits in the New England states was 3.53 per cent; in the eastern states, 3.09 per cent; in the southern states, 3.25 per cent; in the middlewest, 2.95 per cent; in the West 3.18 per cent and in the Pacific states, 3.49 per cent. These rates showed a slight reduction as compared with rates indicated in the previous survey published in the JOURNAL of September, 1932, when eastern states paid an average of 3.40 per cent on savings deposits; southern states, 3.29 per cent; central states, 3.12 per cent and western states 3.52 per cent. The grand average fell from 3.33 to 3.25 per cent in the period.

The Reserve Board's rate of 3 per cent represented a considerable drop. The chief difference, however, was in the effect of the Reserve Board's order on individual banks and clearinghouses, for if the average in the spring of 1933 was 3.33 per cent the number of banks individually or by clearinghouse action paying more than the average must have been comparatively large.

Reductions in rates since the action of the Reserve Board a year ago have been very irregular though considerable in the aggregate, and sectionally, as it appears from the data available, have continued a previous trend. The central western states, for example, showed the lowest average rate on savings deposits in the last Association survey—2.95 per cent. This same condition continues and the central states still have the lowest rates.

The only comprehensive survey of rates made by the Reserve banks since that of a little over a year ago has been in the seventh, or Chicago, district. It appears from this survey that more than half the banks in that district have cut rates to 2 per cent on savings deposits and many others to 2½ per cent, with rates on time deposits in proportion. Only 225 banks in the district are paying the maximum rate of 3 per cent. Four banks report a prevailing rate of 1½ per cent. Banks in central Reserve cities are now paying not to exceed 2 per cent; in other Reserve cities from 2 per cent to 3 per cent but mostly 2.5 per cent, while in country banks rates vary from 1½ to 3 per cent. In Illinois about a third of the banks pay 2, 2½, and 3 per cent each. In Indiana, on savings deposits about one-third of the banks pay from 2 to 2½ per cent; the other two-thirds pay 3 per cent. In Iowa the proportion is about three-fourths of the banks paying 2 per cent, one-fourth 3 per cent. In Michigan the propor- (CONTINUED ON PAGE 50)

Lumber

NESMITH

The Month

Strikes, Politics, Romance and Regulation

This is the emblem of Upton Sinclair's movement to "End Poverty in California"

ACME

The textile strike was accompanied by bloodshed and troop mobilization

KEYSTONE

Prince George of Britain is to wed Princess Marina of Greece

Richard Whitney (right), president of the New York Stock Exchange, discusses final phases of market regulation with Chairman Kennedy (left) of the Securities and Exchange Commission and Ferdinand Pecora

KEYSTONE

Premier Mussolini says Italy is ready for whatever may happen in Europe

INTERNATIONAL

The Condition of BUSINESS

WITH idle funds in the banks at the volume they now are, it may be taken as a matter of course that the chief occupation of banks and bankers in these autumn days is a hunt for profitable investment—almost any safe investment, in fact. The anticipated fall up-turn in business, with an increased demand for funds for industrial and commercial purposes, has been delayed, but some definite improvement, at least, seems in sight.

A steady two months' increase, week by week, in "all other" loans of reporting member banks speaks rather eloquently, although candor compels one to point out that the increase up to the time this is written fails to carry the total to the level of the same date last year. The important point is that the tide has turned.

Commercial paper outstanding also shows the highest volume since November, 1931, having reached a total of $151,000,000 in June, or more than twice the volume outstanding a year previous. It is significant, also, that the distribution of the increase in commercial loans is nationwide and seems to be due to no special stimulant.

AUTUMN PROSPECTS Nor can it be said that the improved prospects for fall business in the banks has been due to any more optimistic attitude on the part of bankers or business generally. A canvass of banking sentiment by every means practicable discloses what may be termed "conditional optimism". The prevailing opinion seems to be that if banking and business generally can have definite assurance from the Government and otherwise that they need no longer fear further tampering with the currency, or inflation, or policies likely to interfere with normal and reasonable profits, or further incursions of the Government in business, or other undue interference of political or unwonted economic policies with business, the latter will go ahead.

On the other hand there is general agreement that there is no ground for extreme pessimism. Although slow in getting into movement, fall trade, in the opinion of most bankers, promises to be upon at least as fair a level as in recent months. The Cleveland Trust Company's business *Bulletin* thinks it does not seem probable that there will be any great change, either for better or for worse, in the rest of the year. "The high level of Federal expenditures for general expenses, for public works and for agricultural relief," it says, "will tend to sustain consumer purchasing power and so to support retail trade and the production of consumption goods."

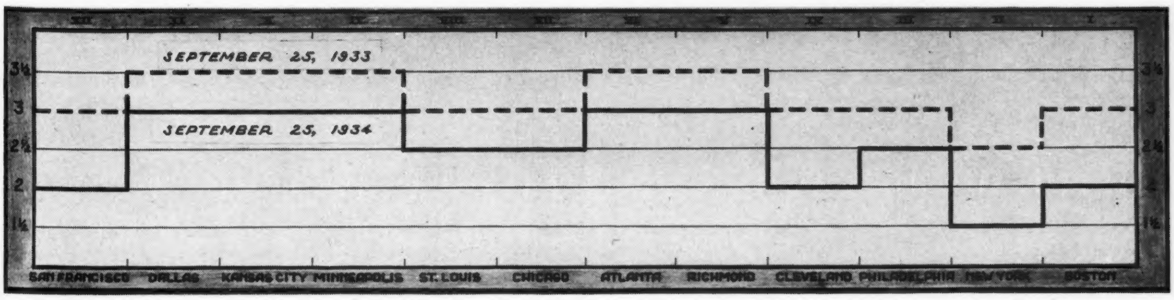
"On the other hand," it points out, "production of durable goods remains far below normal, and that continues to be responsible for most of the industrial unemployment."

FOREIGN CONDITIONS It is notable, also, that banks generally, especially those in the larger cities, are giving more attention to foreign trade and world conditions, appreciating the fact that the latter affect their own interests. One reason for this, perhaps, is a realization that the general improvement in business and economic conditions which characterized last autumn and winter took place all over the world at about the same time.

Unfortunately this carries with it another implication presented in the idea which has spread over a considerable portion of the world in recent weeks—that the revival of industrial activity of a few months ago in nearly all countries has shown unmistakable signs of a general slowing down in recent months. The statement Walter Runciman, president of the Board of Trade of Great Britain, made several weeks ago, that the home market of that country had reached the saturation point, has had much to do with this sentiment.

LEAGUE SURVEY Up to the middle of the year most other countries showed rather more recovery than the United States. In the League of Nations Bulletin for August are published the industrial production indices of 15 countries, which, *prima facie*, show wide variations in the degree of industrial recovery. The indices are based upon industrial production in 1928. Japan heads the list with an

Discount rates in the 12 Federal Reserve Banks



index of 139.8. Chile follows with an index of 125.6; then Norway with 111; Sweden with 107.7; Great Britain, 103.3; Hungary, 90.0; Germany, 88.5; Italy, 85.6; Canada, 80.8; France, 78; the United States, 77.5; Czechoslovakia, 73.4; Belgium, 70.2; Austria, 68.1; and Poland, 62.1.

It should be noted, however, that in 1928 business in the United States and Canada was booming and there was a considerable boom in France and Belgium. On the other hand, conditions in Great Britain and Japan and to a fair extent in Norway, Sweden and other countries of the "sterling bloc" were unusually unfavorable. Measured upon a more normal basis than the record of 1928 the industrial activity of these several countries may not be so far apart after all. In practically all these countries production and industrial activities have decreased more than seasonally in the past three or four months. In none has there been any advance since May. In none are any further immediate advances expected.

Undoubtedly the upset state of European and Far Eastern politics, especially the German situation, has had much to do with the decline and undoubtedly, also, this has been reflected in reduced industrial activity in the United States. A comparison of the returns from the various countries gives the very definite impression that recovery and recession in so many countries at the same time have been due to general economic conditions rather than to any of the widely differing economic policies adopted by the several governments.

INFLATION Fear of inflation continues to have a part in the banking picture, although it seems to be less pronounced. There seems to be a general feeling that since the dollar devaluation policy has failed to achieve its object nothing more in that line is to be feared for the time being. Disturbance caused by silver nationalization and the injection of more silver money or certificates into the circulation has died away as it is realized that the ultimate chief effect of the policy will be to substitute one form of paper currency for another and that whatever inflationary effects the policy may have will be gradual if any.

On the other hand, the prospect of continued heavy expenditures for relief and in pursuance of other Governmental policies involving an unbalanced budget and great deficits now certain to extend over into the fiscal year 1936 impresses many bankers with the idea that the credit of the Government will not bear the strain indefinitely and that some form of inflation in addition to the present set-up for credit inflation will inevitably result.

This feeling, reflected abroad, seems to be the only explanation of the dollar's weakness during the latter part of August and early in September, accompanied by exports of gold in material quantities for the first time since devaluation and nationalization of the gold stocks.

COMMERCIAL LOANS The more significant change in the general banking situation, as above noted, has been the increase in commercial loans, although this increase has been largely offset from the standpoint of total loans and investments by a decrease in loans on securities in rather greater amount. Between July 25, when the increase in commercial loans started, and September 5, loans on securities held by reporting member banks decreased by $282,000,000, reflecting stagnation in the stock market, while "other loans" increased by $254,000,000.

In the same period, the banks' holdings of Government securities declined by $133,000,000, while their investments in other securities increased by $220,000,000. Inasmuch as the latter include the banks' investments in Government-guaranteed securities, like those of the Home Owners' Loan Corporation and the Federal Farm Mortgage Corporation, the exact position of the banks with reference to Government credit is a little uncertain. It seems evident, however, from the course and nature of the Government's September financing, especially in the offer of a higher rate of interest for exchanged securities than had been anticipated, that the banks in general are not so anxious for more Governments.

Strikers breaking windows

ACME

Indications of this condition have been observable for some time. The explanation lies partly in the fact that the banks have about all the Government securities they can conveniently carry, and the prospect of so much more heavy Treasury financing promises an increased supply with probably lower prices, which may materially unsettle present values. The decrease has also been due partly to the fact that at times maturities of Treasury bills have temporarily exceeded new issues.

DEPOSITS Deposits in the banks continue to increase but at a much less rapid rate than earlier in the year. Between January 3 and June 27 the net time and demand deposits other than Government deposits in the reporting banks increased by $1,702,000,000, or at the rate of about $68,000,000 a week. Since June 27 the rate of increase has been about $44,000,000 a week, and during the latter part of July and in early August they actually fell, largely as a result of the liquidation of security loans. The increase in net time and demand deposits in the reporting banks from January 3 to September 5 was $2,141,000,000. Since total loans and investments other than Government securities have decreased by $161,000,000 in that period the part Government spending has had in the increase in deposits is evident.

There is an implication in the increase in deposits resulting from Government expenditures which bankers are now facing. Outlays of the Treasury in the coming winter are likely to be as heavy as, and possibly considerably heavier than, those of the past year, with the result that deposits in the banks will increase accordingly. Since any use commerce and industry may make of these bank funds will be proportionately reflected in further deposit increases, the prospect is that, as a result of the influx of more Government funds, excess reserves of member banks—and of non-member banks as well—will be forced much higher than they now are.

Nor is there any substantial prospect that they will be curbed by an outflow of gold. The exports of gold during August to meet foreign settlements were a rather welcome break in the monotonous growth of the gold stock, but they amounted to only $14,556,454, while imports during the month amounted to $51,780,784. Converted into the old par of the dollar the amounts were $8,596,000 and $30,860,000, respectively.

CANADA Naturally, interest rates have remained at around their lowest point with every prospect that they will remain there indefinitely. Perhaps it is worth noting that these conditions are not altogether peculiar to the United States. The excess of loanable funds in Canadian banks is being increased by a policy not dissimilar to that followed in the United States. Note issues are increasing and preparations seem to be in the making for about $300,000,000 of Dominion refinancing due this fall. Meanwhile interest rates are falling, and the Canadian banks have decided to cut rates paid on savings deposits to 2 per cent from 2½.

In Great Britain there has been a comparative dearth of Treasury bills because of the debt refunding measure of several months ago and a balanced budget, with the result that the British banks seem to have as difficult a time finding employment for their money as banks in the United States. In France bank funds have again tended to increase after the drain upon them last autumn and early winter, because of gold exports and gold hoarding. German banks are still short of funds as a result of the drain upon German reserves as far back as 1931.

In spite of favorable money and credit conditions the prices of stocks have continued to sag and in mid-September reached the low level of mid-July. Bond prices also, even Governments, registered declines. There is no other explanation for the fall than a lack of confidence in the prospects of industry and finance—a lack of profits for the former, a lack of safety and satisfactory return for the latter.

INDUSTRIAL ACTIVITY The industrial situation during September was dominated very largely by the great strike of textile workers, but in some respects the strike only emphasized conditions which have been accumulating ever since last spring. It will be remembered that industrial production, as reported by the Federal Reserve authorities, rose from an index level of 77 in May, 1933, to 101 in July and thereafter fell to 71 by November in the reaction from the overproduction which characterized the speculative movement at the time of the incidence of the code system in industry. From November onward the index again rose until it reached a level of 86 in May, 1934, since which time it again declined to 83 in June, 75 in July, and 71 in August.

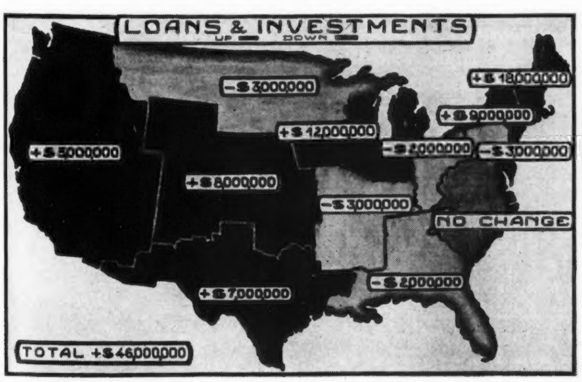
Most of the time in this period factory employment, as measured by the number of people employed whole or part time, increased satisfactorily. It reached an index of 82.3 last May as compared with 62.6 in May the year before. In June, however, it decreased by 1.7 per cent as compared with May and in July it lost 3 per cent as compared with June. Total factory payrolls, which had reached a level of 67.1 in May, 1934, as compared with 47.2 in June, 1933, fell by 3.1 per cent in June as compared with May and 6.8 per cent in July as compared with June. Average per capita earnings, which had increased by 13.5 per cent in the previous year, fell 1.6 per cent in July as compared with June. Since July the fall has been more precipitate in all lines. The decline in payrolls between April and July was over 10 per cent; in production 11.8 per cent; in employment, 8.16 per cent; in individual weekly earnings, 6.2 per cent.

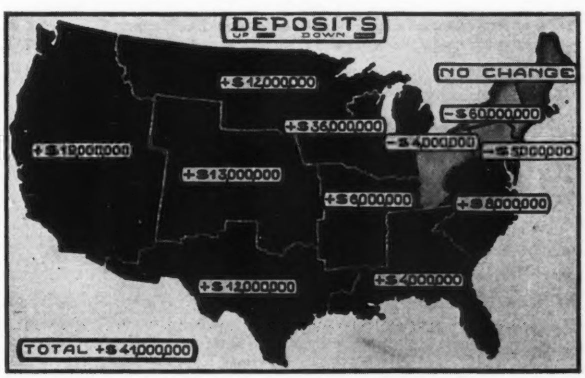
THE COST FACTOR Higher living costs are unquestionably a major factor in the business situation and to a considerable extent immediate business prospects rest upon the outcome of a contest between consumers and high prices. The prevailing opinion among both bankers and business men is that trade in consumption goods will probably run along at about the current dollar level in spite of high prices, but that the volume of turnover of goods will probably fall. To some extent this has already been the case. Department store sales in August as reported by the Federal Reserve authorities, for example, show an increase of 2 per cent in value over August of 1933, but since price levels have risen from 69.5 to 77.5 in the same period the decrease in volume of goods sold is evident.

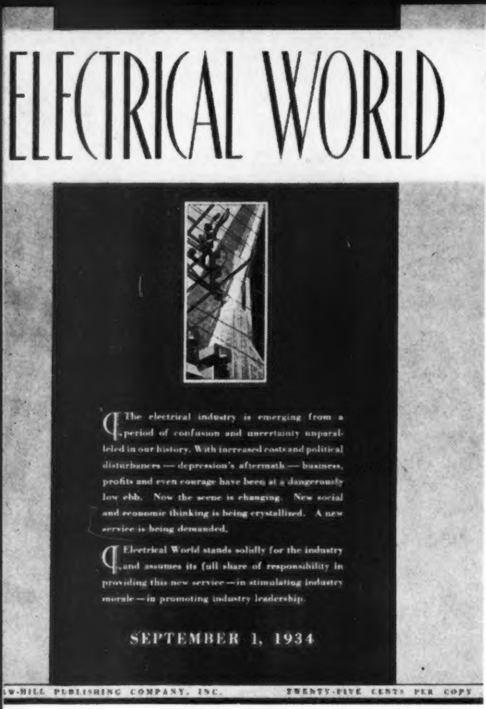
It is only reasonable to anticipate that there will be an increase in the volume of business of all sorts in the next few weeks which will be reflected in banking, but whether the increase will be more than seasonal is a question which developments have not clearly indicated.

CHANGES, August 15 to September 12

(By districts, from figures of reporting Federal Reserve member banks in 91 leading cities)







The Condition of Business Sentiment

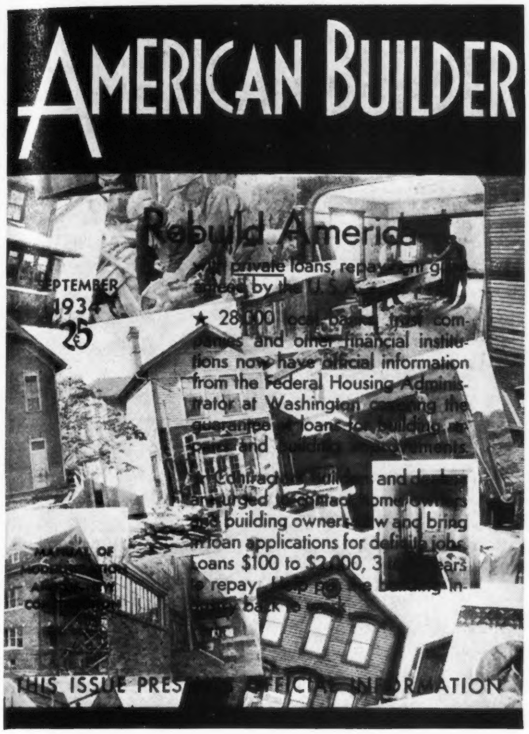
In Recent Months Almost Every Variety of Publication Reflecting Business Views Has Been Striking One Note—the Ill Effects of Continued Uncertainty. A Few Examples—

No one can see far into the future through the murk that obscures the nation's future, but any one can see the work that lies at hand, and it is by accomplishing these immediate tasks that national affairs will be improved. —ELECTRICAL WORLD

•

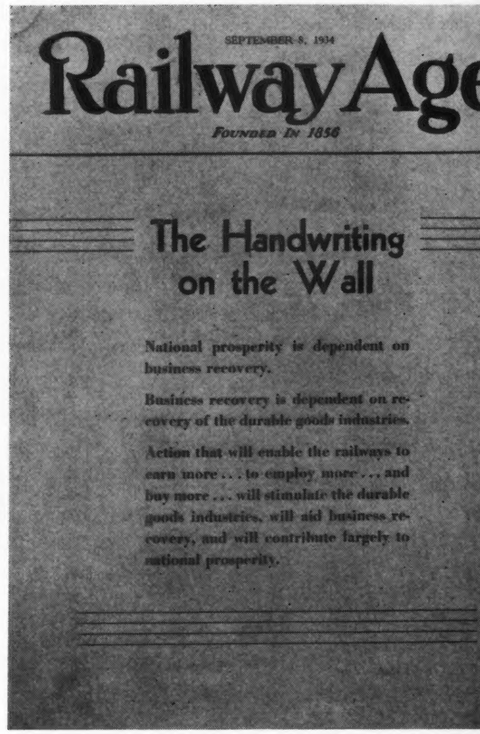
Merchants planning a policy for the fall season . . . are torn between desire to conserve quick assets and to transfer cash into merchandise as a protection against inflation. They are therefore—and this goes for manufacturers too—sailing the business sea without any definitely charted course.—DRY GOODS ECONOMIST

The Wallaces and the Tugwells and the Perkinses have had 14 months of uncontested experimentation in economic theory—at the expense of the American public. The result of this is that we now find prices 15 per cent higher than they were in June, 1933, and business activity—which represents total wages and employment—13.2 per cent lower. —THE IRON AGE



Rebuild America

The Handwriting on the Wall

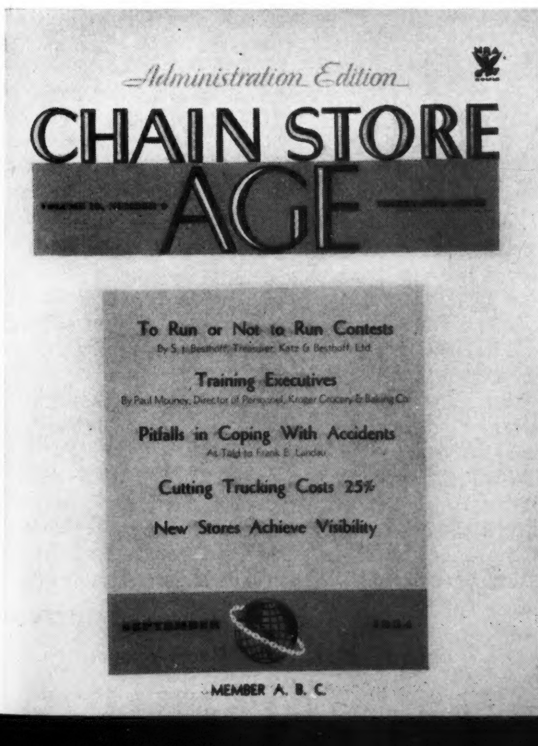


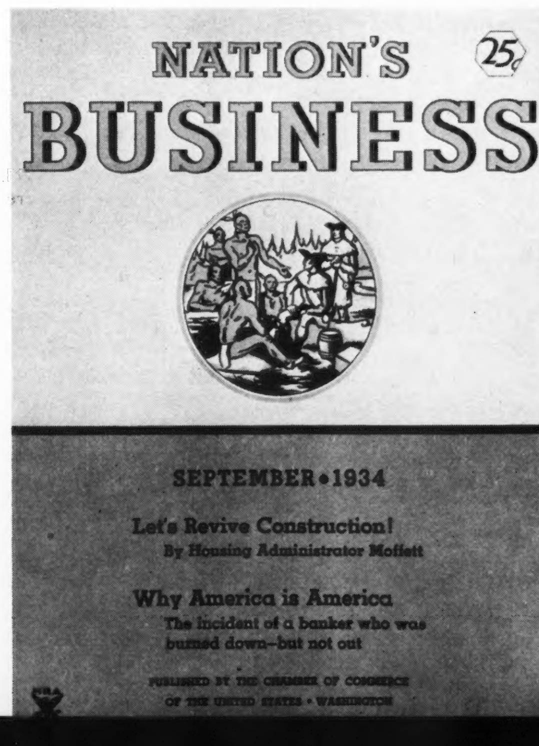
Drought or no drought, there is one crop we can count on. That is the crop of new chain store tax bills which may be expected when our law-making factories get into action again a few months hence.

What to do about it?

—Chain Store Age

The plight of industry unduly bureaucratized is symbolized by a man diligently sawing logs. An official appears and demands a quarter of his earnings. That is bad enough, but when the official sticks around and jiggles the log, the public service is in the way of becoming a public nuisance.—Nation's Business





Government Banking

TWO events of the highest importance in the bank credit phase of business recovery in the United States have taken place in the past month. One was the conference of Federal bank examiners and bank supervisory authorities in Washington in September. The other was a survey of actual credit conditions in the seventh, or Chicago, Federal Reserve district by a corps of experts at the instance of Secretary Morgenthau.

A MATTER now at issue is the tendency of bank examiners to question the soundness and availability of loans which bankers may consider good but which the examiners regard as questionable because "slow" or "character"; also, other loans which bankers consider may be carried in reasonable amount but which examiners have criticized or rejected as unsuitable to commercial bank portfolios. That the policy of the examiners under the instructions of their superiors in this respect has been responsible for much of the reported hesitancy to make loans has long been understood among bankers and is now admitted by the Federal authorities from the President of the United States down.

In order that the truth may be known the survey conducted by representatives of the Secretary of the Treasury in the seventh district has been ordered. The results of that survey will be known late in October, and it is confidently expected that, partly as a result of the survey and partly in keeping with facts already established, instructions to examiners will be modified and a more liberal policy made possible for the banks in dealing with the needs of commerce and industry.

The significance of these developments lies in their relation to the Federal credit agencies which now have credit outstanding in one form or another amounting to around $8,000,000,000; the total is being increased by an amount roughly estimated at $500,000,000 a month. Some of this credit represents loans to states and other political corporations for public works or relief in various forms. More than half of it represents credit put out by permanent Government agencies such as the farm credit system and the home loan system. The rest is largely made up of loans which at other times and under other conditions would represent bank loans—particularly "slow" loans. Accordingly, when the Government and the banks move together to solve the slow loan problem they are starting on a road that promises to lead somewhere.

To measure the practical possibilities of this cooperation between the Government and the banks, however, it is necessary to consider in detail the exact nature and volume of the credit the Government has put out, how much of it represents the operations of permanent Government institutions, and to what extent and in what way banks may yet fit into the picture. Roughly speaking, considerably more than one-fifth of the total credit outstanding is in long term financing of farmers and a little less than one-fifth is in long term financing of home mortgages under the refinancing campaign. With this much banks probably will have little quarrel, yet at the present time these two lines represent more than half of the monthly increase in the Government's credit extension. Nearly another fifth represents advances to the states and other governmental agencies, with little of which banks can have anything to do under present circumstances. Beyond that, however, one enters debatable ground.

The most impressive of the Government's great credit institutions is the Reconstruction Finance Corporation—impressive not only with respect to its size but also in the importance of its functions to banks both as a creditor and as a factor in the general banking situation. There are two phases in the operations of the corporation. One is its function as fiscal agent of the Government; the other is its work as a lending agency to serve finance, commerce and industry. To some extent both functions are mixed. As fiscal agent the corporation is still putting out money. In its lending function to the public at large it is, on the whole, collecting a considerable portion of its previous loans, although in some lines it is still putting out more money. The corporation's total disbursements up to September 1 were $7,944,240,740, of which $4,300,651,295 was for the original purposes of the corporation—i.e., loans to the public for emergency purposes. Of this amount $1,907,258,416, or 44 per cent, had been repaid. Repayments during August amounted to $137,095,447. However, during that month the commitments of the corporation were increased by $750,000,000 and early in September another $100,000,000 was added in its commitments to the Commodity Loan Corporation for loans on corn.

LIQUIDATING LOANS

THE corporation's loans to closed banks for the pay-off of depositors are stationary. On September 1 its commitments on this account amounted to $970,765,764, of which $607,983,813 had actually been paid out but of which, also, $244,637,911 had been repaid, leaving the net amount of cash paid out at $363,345,902. During August it paid out $39,610,396 in new loans and collected $39,604,561 on previous loans. Allowing for $105,089,777 of withdrawals and cancellations, $244,637,912 of the authorizations are yet to be drawn upon.

The R.F.C., of course, is a going concern. While repayments have an importance in measuring the financial responsibility of the Government in its undertakings they do not measure its importance as a lending agent. Aside from its advances to or in behalf of the Government, much of which

goes into credits for agriculture or similar activities, it had loans outstanding on September 1 of $2,393,392,879. These loans are constantly being repaid and new loans are made; while the tendency of the total is downward the fluctuations are much like those of the loan volume of a great banking institution.

The banks of the country, for example, during August secured new loans totaling $38,931,809 and repaid only $26,226,467, increasing their obligations by $12,705,342 and leaving a total of $594,905,291 net debt outstanding. Total advances to banks from the beginning of the corporation's operations to September 1 amounted to $1,665,-356,995, of which 64 per cent had been repaid.

During August railways made new loans amounting to $906,800 but repaid previous loans in the amount of $11,665,236. They still owe $343,188,982. Mortgage companies' total loans from the corporation rose during August from $270,576,361 to $273,384,255, indicating new loans of $2,807,894, but repayments amounted to $25,516,707. Most other large borrowers have stopped borrowing and are gradually paying off their indebtedness. The building and loan associations have borrowed practically no money in recent months, the home loan banks offering them certain advantages where rediscounts are necessary. During August they paid off about $5,500,000, reducing their debt to $31,494,081 out of the total of $114,920,823 they have borrowed in the past. Insurance companies now owe approximately $32,000,000 out of the $89,000,000 and a little over they have borrowed and are paying off the debt at the rate of about a million dollars a month.

AGRICULTURAL LOANS

THE Federal land banks do much heavy financing with the R.F.C. The latter's loans to them during August rose from $193,618,000 to $387,236,000, but repayments were $202,-132,836 and the amount outstanding September 1 was $185,103,164. These transactions were carried through in connection with the refinancing of outstanding bonds of the land banks at lower rates of interest, and much of the financing of the Farm Credit Administration by the R.F.C. is in connection with such transactions.

The regional agricultural credit corporations which, under the plans of the Farm Credit Administration, are to be liquidated as soon as possible, are rapidly discharging their obligations to the R.F.C. At the beginning of September they owed the corporation only $4,721,461 out of the total of $171,903,419 advanced previously and they are cutting the debt down by about $2,000,000 a month. Loans to the Commodity Credit Corporation and others for the orderly marketing of agricultural products have been rapidly liquidated preparatory to the new season's financing. The total advanced has been $269,617,320, including $140,358,036 on cotton, $120,568,388 on corn, $813 on turpentine and $8,690,083 to others. Repayments have been $156,549,218, of which approximately $50,000,000 was paid in August.

The corporation is still advancing money for preferred stock and other capital funds of banks. The amount actually disbursed rose from $838,737,249 to $864,884,480 in August, new subscriptions amounting to $26,147,231. Approximately $10,000,000 also was loaned during the month with such stock or notes as security. Of the total advanced in such subscriptions, however, $57,638,500 had been repaid, $2,595,050 of preferred stock had been retired, and $1,802,-750 in loans on stock repaid. On the other hand, the corporation is increasing its advances to insurance companies by subscriptions to or loans upon preferred stock in them. Subscriptions and loans up to September 1 amounted to $25,975,000, of which a little over $10,000,000 had been paid out during the previous month.

FOR the present the Condition of Government Banking will be a regular part of Banking's Business Report. The ebb and flow of credit through Government controlled agencies, in the months to come, will be a dominant factor in the condition of business.

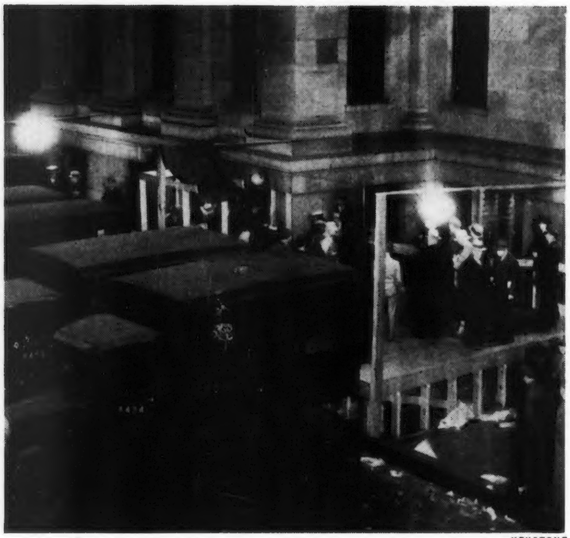
The corporation's campaign for direct loans to industry has not been very impressive in its results. Up to September 1 total loans of $9,149,000 had been authorized, of which $355,000 was withdrawn or cancelled. Actual disbursements were only $273,800, all made in August. Loans to industry through mortgage loan companies, under the campaign in progress for about a year, also have been unimpressive. Total authorizations amount to $19,014,825, of which $4,594,875 was cancelled and only $4,174,640 was disbursed, disbursements now running about $500,000 a month under previous commitments.

During August the corporation advanced $26,306,465 to the Home Owners' Loan Corporation for additional capital as provided by law. It paid out $11,412,000 under previous commitments to finance self-liquidating industrial projects under the act of 1932. It has paid out, all told, $112,658,757 on this account, of which only $5,372,147 has been repaid. It advanced $1,004,446 for the refinancing of levee and drainage districts, such loans totalling $9,177,336. In short, in these and other lines the corporation continues to do a quasi-banking business. In nearly all these activities there is a gradual lowering of the volume of general credit outstanding most of which, however, is taken up by new credit to Government agencies.

H.O.L.C. LENDING

WITH the possible exception of the R.F.C., the Home Owners' Loan Corporation has taken the lead in this credit service in the past few months with its intricate system of authorizations, credits and cash payments. Up to September 1 the corporation had refinanced 492,684 home mortgages representing $1,476,913,010, of which 60,982 mortgages totaling $177,467,461 had been refinanced in the previous four weeks. The rate is increasing and preliminary reports for September indicate that the financing is proceeding at the rate of about 16,000 mortgages involving more than $45,-000,000 a week, with a corresponding increase in the amount of bonds directly or indirectly placed upon the market. The corporation also is loaning money to home owners whose mortgages it holds for the repair and modernization of their property. The amount put out for this purpose up to September 1 was $10,897,515, involving 62,220 contracts, an average of $175 per contract.

The home loan banks are reported as picking up in business. Organized more than two years ago, they were slow in developing activity and have fallen far short of the rosy predictions for immense rediscount of home loan mortgages. By the first of the current year they had developed a business of a little over $100,000,000 in outstanding loans, but in



KEYSTONE

Troops, Federal agents, police and postoffice trucks were used in transporting $750,000,000 in gold through San Francisco as it was shipped to the mint in Denver

the course of the earlier months of 1934 they lost about $15,000,000 of this business and the volume of their loans outstanding has hovered around $85,000,000 ever since.

While the Farm Credit Administration has fallen behind the home loan system temporarily in the amount of new credit put out it is, of course, far more complete in its organization and in the long run will probably far exceed the latter in its loan possibilities. This is the off season in farm financing, and the various agencies under the administration are putting out credit at the present time at the rate of only a little over $100,000,000 net per month, short term funds being more or less at a standstill. Credit in a much larger amount is being granted but there are repayments. On August 1 the administration's organizations had loans outstanding of $2,847,460,680. They included $1,690,495,729 in mortgages in the Federal land banks; $429,829,633 in loans of the Land Bank Commissioner; $201,587,271 in loans and rediscounts of the intermediate credit banks which, however, included rediscounts for the production credit associations and part of the loans of the regional credit corporations; $49,825,728 in loans of the production credit associations; $128,831,099 in loans of the regional agricultural corporations; $91,387,975 in emergency crop loans; $12,834,481 in loans of the Central Bank for Cooperatives; $8,658,512 in loans for other banks for cooperatives; $55,436,598 in old Farm Board loans; $870,825 in Land Bank Commissioner's loans to joint stock land banks; and $305,782,351 in the mortgage loans of the latter.

These totals of credit outstanding, however, do not tell the full story. The farm mortgage refinancing is indicated by the aggregate outstanding, but in the 14 months between the time the administration took over all farm credit institutions to the end of July it had put out production credit of $456,637,365, its loans to cooperatives amounted to $101,281,307 and the Land Bank Commissioner's loans to the joint stock land banks aggregated $1,523,659. All the crop loans and production credit had been repaid except for the outstanding balances above indicated—a short term loan business which is certainly of considerable dimensions. There is also considerable comparatively short term or intermediate credit in the loans of the Land Bank Commissioner.

In addition to the fund for refinancing by the land banks, the Land Bank Commissioner has a special fund of $200,000,000 appropriated by Congress in the spring of 1933 from which to make loans to farmers upon second mortgages or other collateral to enable them to consolidate outstanding indebtedness and assist the refinancing of first mortgages in the land banks. To this sum Congress added an allotment of $600,000,000 from the total of $2,000,000,000 to be raised by the land banks on Farm Mortgage Corporation bonds. These loans by the Commissioner are made in connection with land bank refinancing and have been running at the rate of over $50,000,000 a month. Up to September 1 the Commissioner has used $480,000,000 of the total of $800,000,000 allowed for the purpose. Such loans in August amounted to a little under $50,000,000.

It seems probable that the refinancing of farm mortgages has reached its apex so far as monthly volume of credit goes, though the total limit is far in the future. Mortgages refinanced in June, 1933, amounted to only $3,766,240, but they increased in big jumps until they amounted to $98,091,507 in December, $127,638,052 in January, $140,298,680 in February and $153,184,950 in March. The incidence of the new plan at the end of March brought the total down to $46,633,003 in April. They rose to $121,281,584 in May and to $153,879,599 in June. Then they fell to $117,011,626 in July and to approximately $100,000,000 in August.

APPLICATION BACKLOG

COINCIDENT with this decrease there has been a falling off in the number of applications for refinancing received by the administration. However, the latter already has a backlog of tremendous proportions. It has already approved loans in the process of refinancing to the amount of $602,075,731 which are in the course of completion, while other applications have been filed calling for a total of $3,500,000,000. It may be noted that 89.2 per cent of the loans placed were for refinancing and 16 per cent of the loans refinanced involved a scaling down of debts by an average of 26 per cent of the face of the loan. One reason for the slowing up of the amount of credit output is that the cream of the refinancing has been skimmed and the administration must now deal with loans which require more scaling down, involving protracted negotiations, or with a class of loans too good, in the opinion of the holders, to make scaling down necessary.

Joint stock land banks have been liquidated to the extent of 20 per cent on an average, mostly through refinancing with the land banks or the Land Bank Commissioner, the liquidation ranging from 10 to 50 per cent in the several banks with one bank, the Corn Belt Joint Stock Land Bank of Taylorville, Illinois, the last to be chartered, completely liquidated. Liquidation in recent months has been proceeding at the rate of about $15,000,000 a month.

The regional agricultural credit corporations also are being liquidated in accordance with the policy of the Credit Administration, the volume of credit outstanding falling at the rate of about $10,000,000 a month. For the time being, at least, the administration has written off the old Farm Board loans to the cotton and grain stabilization corporations. Farm Board loans to other con- (CONTINUED ON PAGE 80)

EDITORIALS

Taxation

IF the basis of income taxes could be spread out so as to require every citizen who receives an income to pay a tax of some sort, there would be less political pressure in favor of reckless national expenditures. It can be regarded as certain, in fact, that political pressure would be exerted in the opposite direction in unmistakable terms. The Government would have a more stable income and the most serious present danger in national politics would be avoided.

Such a proposition requires political courage of a high order but surely courage of that sort is now needed if the United States is to avoid progressive pauperization of a large part of the population. There are now on the relief rolls approximately 3,900,000 families—something like 15,000,000 persons, or perhaps 8,000,000 voters. The political pressure of this mass of voters, reinforced by millions of others whose livelihood depends in one way or another on the flow of funds from the Federal Treasury, can readily be appreciated.

In resisting this pressure little can be expected from political candidates of any party seeking election. It is the average business man and average property holder or owner of a bank deposit or insurance policy who has everything at stake.

MORE MONEY

THE announced objectives of the Treasury conferences now proceeding in Washington are to simplify the tax structure, coordinate state and Federal taxes and lay the ground work of a tax bill to be presented to Congress next January. The real objective, of course, is to discover how to obtain more money, how to raise taxes. There is little possibility that this question will come in for much public discussion until after the November election because it would not be very wise to talk about higher taxes at the same time candidates for office, Democrats and Republicans alike, are pointing with pride to their records in getting money for their respective districts.

Consider also, other difficulties of the situation. Swatting the rich is still popular but promises to bring in no more money. A manufacturers' sales tax has been made almost impracticable by two things: state governments preempted this revenue territory and the Federal Government is collecting around $500,000,000 during the current year in processing and compensatory taxes for the benefit of one class of the population and not for the Federal Treasury. There is actually little left along this line to tax.

A few millions of dollars, perhaps a few tens of millions, can be obtained by tightening up the rules to prevent tax evasion. There may also be some odds and ends of revenue garnered through various new schemes. All of these, however, taken together, are a few drops in the bucket and fail to touch the lowest rim of the expenditure program. Money put out by the Treasury for relief and for all other purposes, including public works and pump priming generally, promises to increase during the winter and next year.

A PRACTICAL ANSWER

WHAT is the solution? More revenue is needed. That much is certain. What is equally certain is that the necessity of economy must be brought home to the average citizen and especially to those classes of citizens who are now loudest in their demands for Governmental extravagance because they think they do not pay the bills. For ten years, and probably for a long time before that, certain fiscal authorities of the Government have been studying the possibility of broadening the tax basis so as to bring more individuals into the class of taxpayers. This has been considered in the past as a means of stabilizing national income. Now it would serve the valuable double purpose of assuring stability of income and also of balancing the political scales on the side of economy.

Crime Prevention

THERE should be no minimizing of the importance of the action taken by the American Bar Association at its annual meeting in Milwaukee with reference to the part that the legal profession can play in crime suppression. This action looks toward the weeding out by local bar associations of unethical practitioners who have come to be allies and abettors of organized crime.

Nor is it of less importance that the American Bar Association has appointed committees to formulate improvements in criminal law designed to assure speedy punishment for the criminal. In furtherance of this general objective a permanent committee on criminal justice was set up to observe the enforcement of criminal laws and cooperate with various bar associations and Federal authorities to that end.

REVISION OF STATE LAWS

A REVISION of many state laws and, in some cases, state constitutions, and placing the practice of law on the highest possible plane, are prime requisites in the war on crime.

A further step recommended by the American Bar Association was the formation of departments of justice in each state somewhat similar to the Federal Department of Justice. These would direct and supervise the work of states' attorneys, sheriffs, police and other law enforcement agencies. Such departments would aid in coordinating the efforts of Federal and state authorities.

Our Neighbor's Money

By J. H. SIMPSON

Canadian Bank of Commerce, Seattle, Washington

THE notion that American bankers are national rather than international has possibly always been true, at least in their operations if not in their scope, but today it is more than ever true. The growth of economic nationalism, coming on top of the geographical isolation of the United States, is making not only the higher intricacies of foreign exchange but also the handling of foreign currencies in small lots almost as strange and fearful a thing as dealing in sweepstake tickets and other contraband of peace. Not, of course, to the large banks in leading centers, but to the rank and file of country banks.

Until quite recently there has always been one exception to our traditional monetary isolation — Canadian currency. At least it has been an exception to the rule in so far as the bankers across the northern strip of the United States are concerned. But now it seems to me that Canadian money is becoming as unfamiliar as the Chinese tael or the Japanese yen. Many bankers, in buying it, apparently feel that they are buying a pig in a poke.

I have been amazed in recent months—months during which the Canadian dollar has gradually been gaining on the American until, on the day I write this, it has reached a premium of 2½ per cent—to find that many country banks in my section have been, and still are, consistently discounting Canadian bills and checks. Canadians who have presented their money to me for exchange have complained long and bitterly about it.

Now we must rule out of the discussion any assumption that with such country bankers it has been a case of deliberate discourtesy to their friendly neighbors to the north. Nor should we assume that the country bankers have been trying to make any exorbitant profit out of the transactions. In most cases the amounts involved are small—and the profit even smaller—because so complete are the facilities of the Canadian banks, even the smallest branches, for selling exchange on the United States that most Canadians visiting us come armed with travellers' checks or American currency. Still, many of them, well aware of the fact that their money, long subjected to a heavy discount, is now at a premium (and inclined sometimes to be a little humanly up-stage about it) do not bother to exchange currencies for a short trip to the United States, and to such visitors it is a distinct and unpleasant shock to have their outsize Canadian bank notes grudgingly accepted at par if not, indeed, at a discount.

It seems probable that the trouble is caused by unfamiliarity with the Canadian notes themselves and fear that they may be forgeries, and by doubt as to what to do with the notes after they have passed into the teller's drawer. It is therefore my desire to explain just what Canadian money looks like and what to do with it when one gets it.

To describe in detail the appearance of Canadian notes would be tiresome and probably unnecessary. Sufficient to say that \$1 and \$2 bills are all issued by the Canadian Government, not by the banks. Some \$5 bills of Government issuance are also in general use and a discontinued issue of \$4 bills occasionally turns up. Some fortunate people also appear with \$500 and \$1,000 notes, which are also issued only by the Government. All of these notes, of course, are good, and the rules for detecting forgeries (which are rare) are the same as for detecting American forgeries—quality of the banknote paper, which is identical with American paper, clearness of the engraving, and so on.

Most of the \$5 bills and all the \$10's, \$20's, \$50's and \$100's are issued by one or other of the ten existing Canadian chartered banks, which are as follows: Bank of Montreal, The Royal Bank of Canada, The Canadian Bank of Commerce, Bank of Nova Scotia, The Dominion Bank, Imperial Bank of Canada, The Bank of Toronto, Banque Canadienne Nationale, La Banque Provinciale du Canada, and Barclays Bank (Canada). (CONTINUED ON PAGE 64)

CANADIAN INDICES

Not only is Canada's dollar at a premium, but the stock exchange in Toronto has been enjoying an unusually busy summer

ACME

Public Pension Plans

PUBLISHERS

WISCONSIN STATE CAPITOL AT MADISON

". . . most observers agree that we are about to have a national epidemic of unemployment benefit proposals, and that the other types of social insurance will have to wait their turns." Wisconsin has been a proving ground for social legislation

WHETHER or not business likes it, every indication points to the early passage of legislation for compulsory social insurance of one sort or another.

For many years bills for this or that type of social insurance have appeared regularly in many legislatures and in Congress. These bills have seldom been reported out of committees, and until recently none of them got far beyond that point. But the trend of the times, with government entering all manner of programs for social reform, is all toward the enactment of social legislation. In Washington, and in many states, the power of approval seems firmly lodged in those who believe in "passing a law about it," particularly if "it" promises to better the lot of the worker.

The first substantial victory for the advocates of such legislation is the Wisconsin law which took effect on July 1, 1934, compelling employers, with a few unimportant exceptions, to provide unemployment benefits for their lower-paid employees. Other types of social insurance are in the offing and one, the Federal act of last spring setting up compulsory retirement pensions for railroad employees, is actually here. What are the prospects for further enactments of old-age pensions, industrial pensions, health and disability insurance, other classes of compulsory provision for social welfare?

Considered strictly on social merit, it seems that many of these can present a stronger case than unemployment insurance. From the practical standpoint of legislative expediency, however, unemployment insurance leads by several lengths. The number of unemployed and of people who fear unemployment is many times greater than the number of elderly folks and invalids. Unemployment is in the front of everyone's mind. Consequently most observers agree that we are about to have a national epidemic of unemployment benefit proposals, and that the other types of social insurance will have to wait their turns.

Anyone who discusses unemployment insurance with employers must be impressed with the confusion of ideas on the subject. Most business executives consider it desirable that employees should have a greater measure of security in their employment than has been so far attainable in most industries. The instinctive reaction to compulsory unemployment benefits is that this is just one more drain upon industry already weakened by innumerable drains. Those managers whose thinking has gone a little further believe that even though the burden be distributed over all industry so that no one is in a more favorable position than any other, it must result in higher prices to the consumer, lessened consumption, a lowered standard of living for the mass of people and a further impairment of the possibilities of business profits.

The comparatively few industrialists who have really studied the subject have rather definite ideas as to the type of compulsory legislation which will bring to workers and the nation generally the greatest benefits with the least harm—if, they hasten to add, we must have any legislation.

The company most recently in the public eye for its adoption of a plan of voluntary employment benefits—its heads insist the plan be called "employment assurance"—is the Wm. Wrigley Jr. Company. In a letter to part of his organization explaining the program which had just been adopted, Philip K. Wrigley, president, stated the humanitarian side of the case extremely well:

"When a man or group of men start

By ARTHUR VAN VLISSINGEN, JR.

a business they assume certain recognized and accepted business obligations. They rent or buy factory and office space, contract for raw materials, advertising, etc. They have every intention of living up to these contracts, and the people with whom the contracts are made have every intention of collecting and rely on their contracts to enable them to collect whether the business goes or not . . .

"If the business did not click it would probably first of all let its employees go, although these employees as individuals, because of having jobs, have in turn assumed certain responsibilities—rent on a place to live, food, light, heat, etc. In the meantime, the business which has not assumed an obligation to its workers struggles along getting what it can out of the assets to pay up the landlord, bank, etc., and if anything is left give it back in proportion to the people who paid money into the venture—in most cases the stockholders. Everyone connected with the business has a chance of salvaging something from the wreck with the exception of the employees.

"Of course, this is an extreme case of a business folding up completely. The same thing holds good in a lesser degree for shutdown periods. It has seemed to us that there is a screw loose somewhere in this system and our plan is to take care of it in our own particular business."

The attitude of the typical employer to compulsory unemployment insurance is well stated by the head of the largest corporation in one branch of construction materials: "A good friend of mine is a farmer. The other day I talked with him and he told me, 'There's a lot of small jobs around my farm that I'd like to do, using your product. They badly need doing. But your stuff costs more than it did a year ago, and my income promises to be less. I guess I'll just have to let it slide until the tide turns.'

"He is absolutely right, and there are hundreds of thousands of other people in exactly the same shape. They would buy of us, but they can't afford our prices. We had to raise prices, for the N.R.A. ran up our labor costs and raised the cost of every raw material we buy. We're losing money most of these recent years, or at best making a few thousand dollars on an investment of millions. The only way we can pull out of the hole and give more employment is to sell more goods. Even a slight price increase cuts off thousands of potential customers.

"Suppose we get compulsory unemployment insurance, and it calls for only the 2 per cent payroll assessment of the Wisconsin plan. We get the same increase on everything we buy, so our costs and consequently our prices will have to go up another 2 per cent—obviously we can't absorb the 2 per cent out of our own resources, for we haven't many resources left. At the same time, our customers do not have their incomes raised 2 per cent by the plan. What can it mean but decreased sales and greater losses? And is it better for society to have a large employer like ours go out of business because of increased costs imposed by law, or to continue giving employment to several thousand people but leave these uncovered by unemployment insurance? Even the professors can't answer that one the way they'd like to!"

Another manufacturer—he happens to be in Wisconsin where he has been recognized as an able student of the subject ever since the first compulsory unemployment benefit bill was introduced in the legislature many years ago—declares that compulsory social legislation of this type is essentially lowering the standard of living of the people, for reasons similar to those just cited.

"Let any business that can do it adopt all the industrial benefit plans it wants to," he urges. "Certainly my own corporation has been far more liberal in its treatment of employees than we are likely to be compelled by law for a good many years yet. So nobody can say I'm kicking because I'm being forced tardily to accord them justice. The entire point is that if a business can afford such measures and still price its goods within the purchasing power of its consumers, then it should do so as a matter both of ethics and of enlightened selfishness in its industrial relations. But when this is forced willy-nilly on every manufacturer and business man, it places a burden upon them which is bound to do more harm to the general public than to the employers—even assuming that the blamed thing works out as its proponents hope it will."

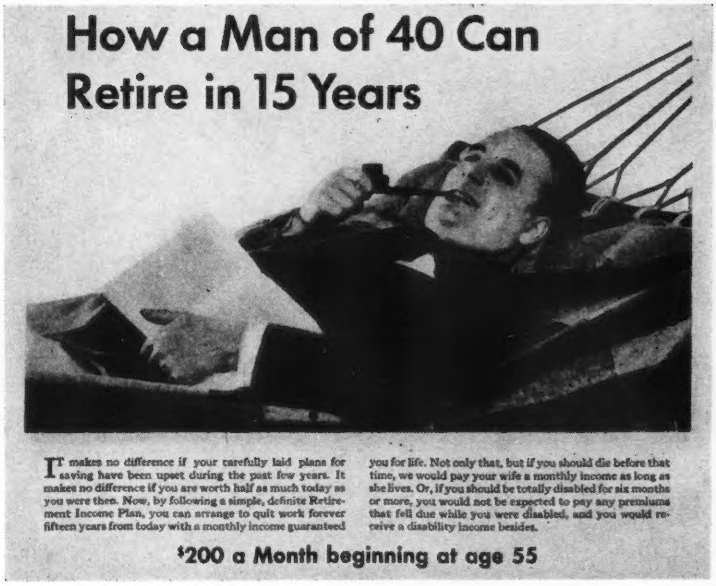
Another Wisconsin corporation head sees mixed prospects. (It is worth com-

THE "AVERAGE MAN" SPEECH

President Roosevelt selected Green Bay, Wisconsin, for the speech in which he lauded the pioneer spirit: "They sought a life less fettered by the exploitations that selfish men set up in governments that are not free. They sought a wider opportunity for the average man. . . . We are but carrying forward the pioneering spirit of the fathers . . ."

KEYSTONE

The increase in recent years of advertising based on a desire for security is a significant sign of the times. At right is part of a recent Phoenix Mutual Life Insurance Company advertisement



ment that few of the state's largest employers are unreasonable or immoderate in their opposition.) "Of course," he points out, "this present bill is just a starter. It provides for building up to $75 reserve per employee in the covered low-wage class. Long before the $75 is reached the legislature will increase it to $100 or $150 per employee—and I look to see it reach the average of a year's earnings, say $1,500 per employee, before we are through with it. It is costing us about $10,000 a month right now, and I do not expect we shall have to pay less at any time within 15 or 20 years. So it is quite a burden—in fact it is more than our best year's profit since 1928, so obviously we have to get it out of prices rather than absorbing it ourselves. Anyone who thinks the social-reform folks will quit at $75 is just plain foolish.

"My one hope is that the social-reform people are right when they say that the plan will place such an incentive upon industry to regulate its employment that the saving will more than pay the cost of the unemployment reserves. They said that when they pioneered workmen's compensation in this state, and out of it grew the safety movement which certainly has decreased manufacturing costs more than the compensation insurance premiums have increased them. Maybe they are right, though I doubt it. The circumstances are not comparable, for the individual manufacturer could, as it turned out, pretty thoroughly control safety conditions entirely within the confines of his plants. The employer cannot personally control or even materially influence cyclical unemployment, though he may be able to do a lot better job on occasional, periodic and seasonal unemployment than he has so far been doing. I only hope I am wrong and they are right. And I must admit that conceivably enough money may be saved by stabilizing operations in the minor aspects of unemployment so that these savings will pay for the uncontrollable cyclic unemployment benefits. It is even conceivable, though to me it seems far-fetched, that the regularization of employment which may result from these efforts will be sufficient influence to cut at least some off the peaks and fill the depths."

The reasonable attitude of Wisconsin employers has unquestionably led to commendable cooperation between industry and the authorities of the industrial commission, who are generally considered liberal in their tendencies. It is noteworthy that the official consultants to the commission on unemployment compensation appointed by the commission are three men: the author of the bill, who is a professor at the state university, and two lawyers who respectively head the law departments of two of the state's largest industrial corporations. This is a fair index of the working harmony between the state official and management groups of the state.

Says one of these corporation attorneys, "In the first place, let's get it on the record that we are not in favor of any kind of compulsory unemployment insurance. But if we have to have it, then we believe the present Wisconsin plan is about as fair and workable as any plan that can be devised. We are chiefly apprehensive that if Congress imposes a national program of unemployment insurance, it may do so on the European (also called Ohio) plan rather than on this American (or Wisconsin) plan.

"The heart of the Wisconsin plan is that each employer sets up his own reserve, and it is maintained as a separate fund to care for unemployment among his people. This means that if he succeeds in regularizing his own employment, he presently reaches the legal requirement in his reserve fund, and is thereafter exempt from further contributions until such time as his fund is impaired or his business increases, leaving the fund inadequate. It means that the employer who does not stabilize keeps on contributing year after year, thus paying his own penalty. The state regulation is held to a minimum, very few state employees are needed to supervise the plan, overhead is held to a bare minimum.

"The European plan, which is often called the Ohio plan because it has been advocated in Ohio although it has never become law there, involves a pooling of all employers' funds, obviously in government hands. It penalizes the steady employer for the sins of the ruthless or incompetent who hires and fires excessively."

Says the other corporation attorney: "Under our present intricate social and economic structure I believe the advisability of the enactment of compulsory legislation for the establishment of unemployment benefits is definitely indicated. I favor a reserve law of the Wisconsin type because it will: (1) promote regularization of employment; (2) allocate the social costs of unemployment; (3) provide a deferred (dismissal) wage for short periods (calendar year); and (4) preserve individuality of action both for the employers and the employees."

Bank Pension

By EDWIN C. McDONALD

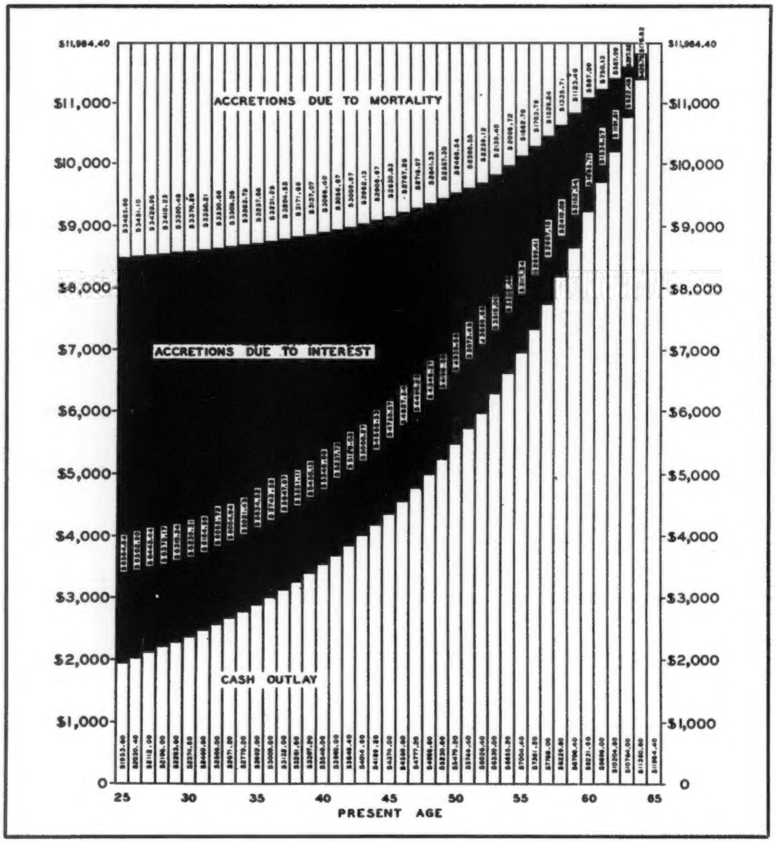


Chart Showing Present Value of an Annuity of $100 a Month Payable at Age 65

IT SEEMS unnecessary to offer much argument to bankers for the need of pensions. The existence of some form of pension practice in so many financial institutions and the substantial cash disbursements each month to a large number of retired employees is eloquent testimony to a pension plan's usefulness.

Bankers generally would be most reluctant to give up their pension plans, and many of them term it the one efficient and practical course to follow in the retirement of bank employees.

Recently an inquiry addressed to officials of a substantial number of financial institutions brought forth some definite replies justifying the payment of pensions to their retired employees. Certain of these comments may be of interest.

"Certain employees will maintain the pace," said one executive, "even at the older ages, and will make contributions to the success of the bank based on a combination of experience and willingness. Others will not—and for the sake of organization efficiency they must be removed from the active payroll. We have found the payment of retiring allowances an important aid in promoting efficiency."

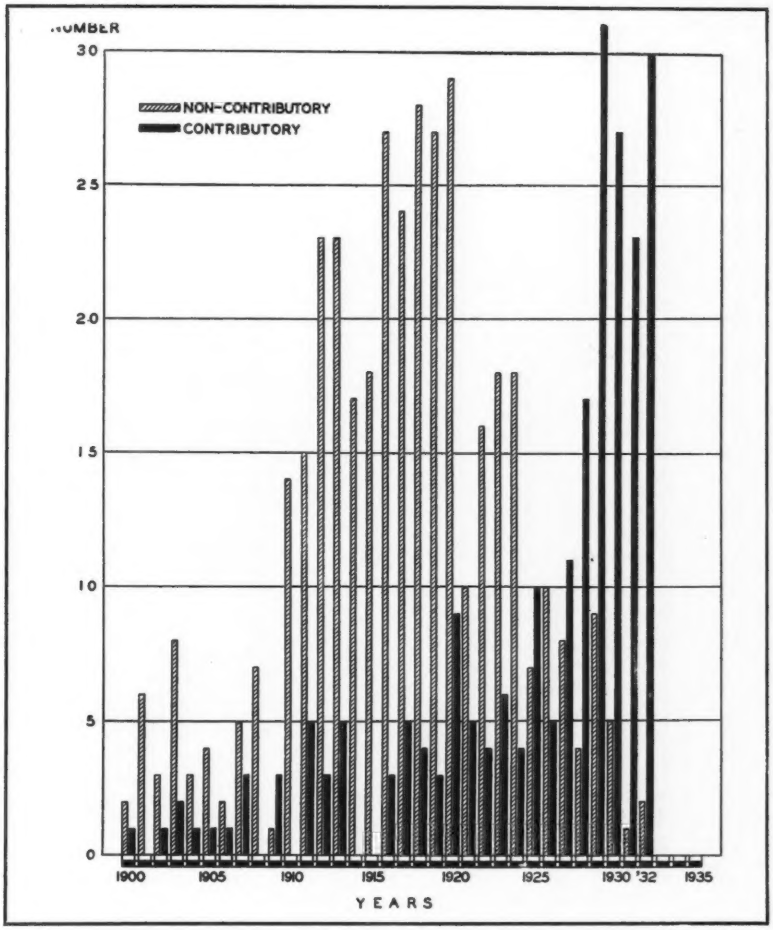
An interesting comment from the president of a large trust company reads as follows: "I haven't investigated the specific reasons justifying the maintenance of our pension plan. In a general way I do believe, and in this I am supported by my associates, that the payment of these allowances is good business and worth the investment. I do know of one specific instance in our organization which I think we would offer as a good reason. Several years ago two very promising young men in the junior executive group, who were offered better positions elsewhere, would have left us if they had not known they would each have an opportunity at some positions higher up because of the retirement of certain officers.

"The retirements of the officers have already taken place and the two young men referred to have been promoted and are giving an excellent account of themselves. Had it not been for our pension arrangement, I doubt that we could have held the special talent, and in one case even brilliance, of these young men, for they would have been attracted to other organizations where the chances of promotion were more promising."

An important banker in the Northwest writes: "Under our old haphazard pension plan, where we decided each case on its own merits, it was difficult to retire an employee because too often it meant an abrupt adjustment in his scale of living, which was something of a shock after many years of service had lulled him into a sense of job security. Under our present retirement annuity plan, an employee not only can look forward to security in old age but he can know within a reasonable figure the amount of the annuity he will receive on retirement. When a definite retirement program exists, an employee can so adjust his scale of living during the years immediately preceding retirement that the reduction in income does not come as a shock, and, therefore, em-

Plans

Mr. McDonald is Assistant Secretary of the Metropolitan Life Insurance Company



Ratios between Contributory and Non-Contributory Retirement Plans in United States and Canada

ployees do not resist retirement as under the old arrangement."

In recent years there seems to be rather general agreement that it is highly desirable to invite an employee to contribute towards the income he will receive on retirement. A great many employers report that employee benefits of any type, be they group insurance, sickness, accident or retirement allowances, are more appreciated, better understood and more apt to accomplish their purpose if the employee shares in the cost.

For the last five years over 95 per cent of all the new retirement plans established in this country and Canada were on a contributory basis and, in addition to these new plans, a number of older, non-contributory plans were revised to provide contributions from the employees. In all cases, employees were found ready and willing to join with the employer in building up a fund for their old age. This has been decidedly true in the case of financial institutions.

Some examples in this group where employees contribute to the cost of their retirement income are: St. Louis Union Trust Company, Bowery Savings Bank, Crocker First National Bank and Trust Company of San Francisco, First National Bank and Trust Company of Minneapolis, Union Joint Stock Land Bank of Detroit, Chase National Bank of New York, Mercantile Commerce Bank and Trust Company of St. Louis, Union Square Savings Bank, Excelsior Savings Bank, Dry Dock Savings Institution, Old Colony Bank of Providence, R. I., Suffolk Savings Bank of Boston, National Bank of Detroit, First National Bank of Portland and Chemical National Bank.

It seems appropriate to examine the fundamental principles behind pension reserves. Banks, as well as industrial organizations, have seen their annual pension disbursements rise rapidly, particularly in the last ten to 15 years. Naturally they sought methods for leveling these costs. Investigation soon developed something of an accounting parallel between the retirement of employees (whose usefulness is impaired by old age or infirmities) and the retirement of equipment. In other words, annual reserves for depreciation of the "human element" go hand in hand with annual charges for the depreciation of plant and equipment. Both employee and equipment have a certain useful life at the end of which retirement (and frequently replacement) is very desirable. The accumulation of reserves in advance of retirement seems an appropriate and sound accounting practice.

An illustration with some supporting arithmetic may help to clarify the preceding discussion.

Let us suppose the officers of the Smithtown National Bank are considering the case of Peter Hayden, an old clerk, whose frequent mistakes, coupled with the infirmities of age, make his continuance in active service out of the question.

What to do? The president asks for suggestions.

"Give him two months pay and tell him he's through," recommends young Jim Hamilton, out of college five years, a keen mind, but with a youthful lack of appreciation for long and faithful service.

"I'd hate to see that done to Hayden. He's 65 now. You can't expect him to find employment elsewhere. How will he live?" says Cashier Gilbert.

"Pete Hayden came to this bank fresh from service in the Spanish War. He's been with us 35 years", comments Jake Sheppard, head of the trust department. "I'd vote for giving him a pension for the rest of his life."

And so it went 'round the table, all but two officers anxious to see the bank take care of Hayden the rest of his life.

The final decision: Hayden is to receive half pay the balance of his life; that's $100 per month. That payment may last two years or it may last twenty-two years, for no one knows how long an individual employee may live.

On the average, statistics tell us, a monthly retirement allowance, begun when an employee retires at 65, will continue for a little more than 12 years (expectancy of life after age 65 is approximately 12¾ years). So if a bank pensions a 65-year-old employee its cash outlay will total $15,300, on the average.

But we might go back 35 years when this employee first came to work. He was then 30 years of age. The bank is operating a retirement program and invites him to join the plan. He contributes $6 per month (by payroll deduction) towards his pension of $100 per month. He is told that, if he leaves the bank or dies, all his contributions will be returned in full to him or his beneficiary.

The bank adds a sufficient amount to his contributions, thus assuring the fund necessary to produce $100 per month for life, beginning at age 65. The bank's cash outlay during the employee's 35 years' service would total $3,700.

Would any board of directors hesitate to adopt the latter program under which an employee buys a portion of his own retirement income?

A bank buys safe deposit and vault equipment. It assumes 35 years as the useful life for this new equipment. Replacement must be provided for at the end of that period.

Should the cost of replacement be assessed against the stockholders 35 years hence or should the bank's earnings be charged each year an appropriate sum for the depreciation of the new equipment? Under the latter method, stockholders who are currently benefiting from the earnings of the safe deposit vaults would bear their proportionate share, rather than charge a future generation of stockholders with the cost of replacing equipment which gives them no service.

Scrooge and brow-beaten Bob Cratchit might have been typical of the period when Dickens wrote. But that was a long time ago

An employee's useful business life may be said to terminate in the average case around age 65. Assume that an employee begins service at age 30. His active employment will, therefore, total 35 years. Should the bank wait 35 years to provide reserves for his retirement or should the necessary funds be established through joint contributions of the employee and the bank during each of the 35 years of active service?

Under the latter method stockholders bear their proportionate share of the pension reserves each year, while under the other method the cost of retirement is assessed against stockholders 35 years hence for whom the retired employee can give no service.

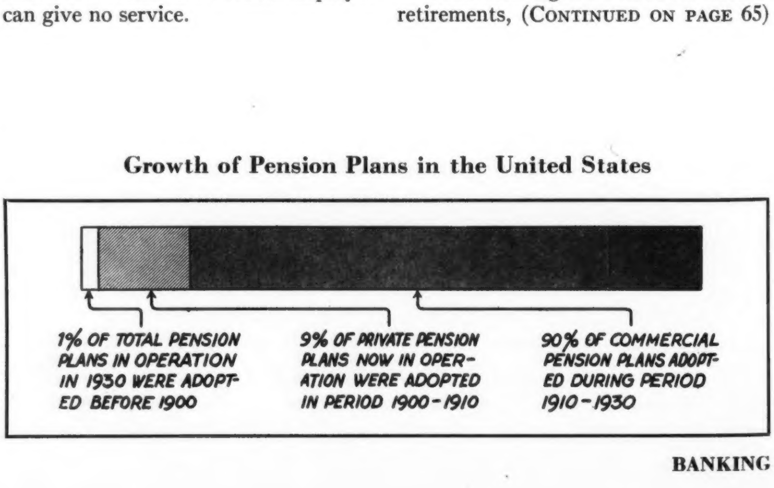
An increasing number of financial institutions has adopted the principle of accumulating funds prior to the retirement of their employees. The type of pension program frequently adopted in the banking field may be of interest. A discussion of such a plan follows.

The normal retirement age is 65 for men and 60 for women.

Sixty-five was not arbitrarily selected. Actual experience in a great many concerns indicates that 65 is just about the threshold of old age and that after 65 the rate of sickness jumps up very rapidly and the possibility of accident is present in a much greater degree.

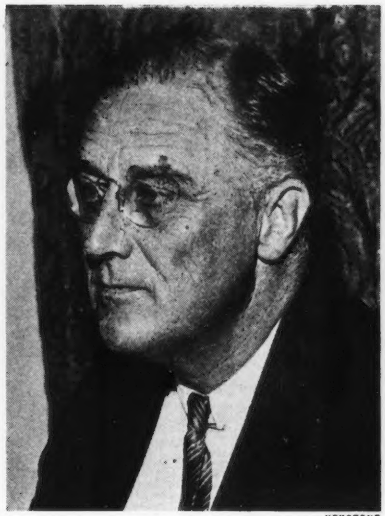
While these ages are used for normal retirements, (CONTINUED ON PAGE 65)

Growth of Pension Plans in the United States



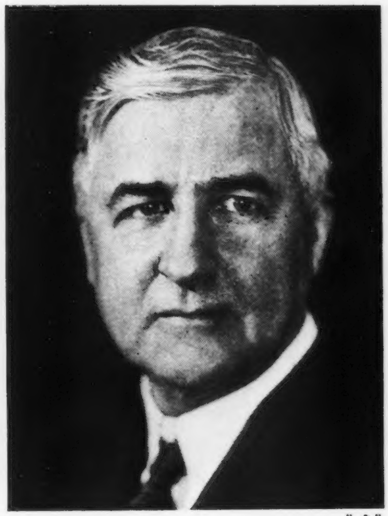
U. & U.

Henry Morgenthau, Jr., Secretary of the Treasury



KEYSTONE

Franklin D. Roosevelt, President of the United States



U. & U.

Jesse H. Jones, Chairman of the Reconstruction Finance Corporation

The American Bankers Association

THE banking profession of the United States will be assembled in Washington from October 22 to 25, inclusive, for the Sixtieth Annual Convention of the American Bankers Association.

Franklin D. Roosevelt, President of the United States, has accepted an invitation to address the Convention on the evening of Wednesday, October 24. Other general sessions will be distinguished by the presence, as guest speakers, of three of the Government officials who are most prominently identified with banking and finance: Henry Morgenthau, Jr., Secretary of the Treasury; Jesse H. Jones, chairman of the Reconstruction Finance Corporation; and Leo T. Crowley, chairman of the Federal Deposit Insurance Corporation.

Convention headquarters will be at the Willard Hotel, but the general sessions take place in the National Theatre, except that Mr. Roosevelt will speak in Constitution Hall. Other business meetings are scheduled for the Willard.

In order that bankers may take full advantage of both the general sessions and the group meetings, the program has been arranged so there are no important over-lappings. Thus, general sessions of the Convention, at which the Government officials will speak, are scheduled for the mornings of October 23, 24 and 25. The meeting of the State Bank Division will be held Monday morning. Other divisions and the State Secretaries Section will meet on the afternoons of Monday, Tuesday and Wednesday.

Two features of particular interest have been arranged. One is a Constructive Customer Relations Clinic, divided into three sessions. The other is a clearinghouse round table conference. Both will provide an outstanding opportunity for discussions of practical banking problems which do not come within the scope of the Association's divisional activities.

The Alexander Hamilton statue in front of the Treasury

NESMITH

THE GENERAL SESSIONS

THE General Convention is to be called to order at 10:00 o'clock Tuesday morning, October 23, by Francis Marion Law, President of the American Bankers Association and president of the First National Bank, Houston, Texas. Mr. Law's presidential address will be followed by the report of the Official

NESMITH

The Shakespeare library in Washington

Acts and Proceedings of the Executive Council during the past year and by the appointment of the resolutions committee. Mr. Law will then present Mr. Crowley, whose topic is "Deposit Insurance as an Aid to Banking."

The speaker at the Wednesday morning session is Mr. Jones. His address will be followed by the report of the nominating committee, the election of officers for the next Association year, and the report of the resolutions committee.

President Roosevelt will address the Wednesday evening session in Constitution Hall.

Thursday morning, October 25, the delegates will hear Secretary Morgenthau, following which the new officers will be installed.

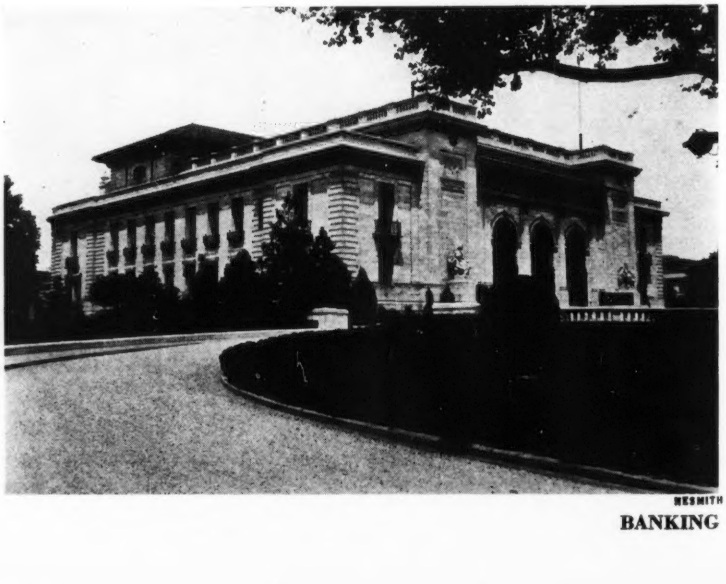
THE DIVISIONAL MEETINGS

THE State Bank Division is the first group to convene, assembling at 9:30 o'clock Monday morning, October 22. An address by Clyde Hendrix, President of the Division and president of the Tennessee Valley Bank, Decatur, Alabama, will be followed by the appointment of committees. The bankers will then hear addresses by Robert M. Hanes, president of the Wachovia Bank and Trust Company, Winston-Salem, North Carolina; John G. Brown, counsel of the Montana Bankers Association, Helena, Montana; and Clinton B. Axford, editor of the *American Banker*, New York City. Mr. Hanes' topic is "Some Practical Phases of Bank Management", Mr. Brown's "The Frazier-Lemke Bill", and Mr. Axford's "What the Country Wants".

Monday afternoon has been reserved for the National Bank Division of which Irving W. Cook, president of the First National Bank, New Bedford, Massachusetts, is President. After Mr. Cook has spoken he will introduce A. G. Kahn, president of the Union National Bank, Little Rock, Arkansas, whose topic is "Know Your Costs". Mr. Kahn will be followed by Frank P. Bennett, editor of the *United States Investor* who will discuss "Who Should Handle Reserves of National Banks—a Central Bank or Federal Reserve System?"

The Trust Division's meeting is scheduled for Tuesday afternoon at 2 o'clock. H. O. Edmonds, vice-president of the Northern Trust Company Bank, Chicago, will speak as President of the Division. Eugene M. Stevens, chairman of the board and Federal Reserve Agent of the Federal Reserve Bank of Chicago, is to talk on "Federal Examinations of Trust Departments" and a speaker, as yet not selected, will address the Division on "The Bank President and the Trust Department". Without adjournment the meeting will be continued as the second session of the Constructive Customer Relations Clinic, dealing with customer relations of the trust department.

Problems of the savings bank will be considered at the meeting of the Savings Division on Wednesday afternoon, October 24. After the address of Henry S. Kingman, treasurer of the Farmers and Mechanics Savings Bank, Minneapolis, as President of the group, delegates will listen to two addresses: one by Dr. Douglas L. Meredith, Commissioner of Banking of the State of Vermont, on "Savings Banking in an Era of Change"; the other by Will C. Wood, vice-president and manager, Bank of America National Trust and Savings Association, Oakland, California. Mr. Wood's topic is "What Con-



NESMITH

The Pan American Building

Robert V. Fleming, Second Vice-President of the American Bankers Association, and President of the Riggs National Bank, Washington, D. C.

Francis M. Law, President of the American Bankers Association, and president of the First National Bank, Houston, Texas

U. & U.

Rudolph S. Hecht, First Vice-President of the American Bankers Association, and chairman of the Board of the Hibernia National Bank, New Orleans

stitutes a Sound Real Estate Loaning Policy?"

The State Secretaries Section will meet Wednesday afternoon under the presidency of Joseph W. Brislawn, secretary of the Washington Bankers Association, Seattle, Washington. The President's annual report will be followed by reports of the various standing committees. This meeting is to be continued as the third session of the customer relations clinic.

CLEARINGHOUSE ROUND TABLE

ALL bankers are invited to attend the clearinghouse round table conference at 2 o'clock Tuesday afternoon under the auspices of the Bank Management Commission of the American Bankers Association. Ronald Ransom of Atlanta, Georgia, Chairman of the Banking Code Committee, is Chairman of the Commission.

The topics and discussion leaders are: "The Banking Code", Mr. Ransom; "Cost Accounting", John N. Edlefsen, Portland, Oregon; "Installing Service Charges", Orval W. Adams, Salt Lake City; "Credit Practices", Fred B. Brady, Kansas City; "A Sound Interest Policy", W. Walter Wilson, Milton, Pennsylvania; "Central Credit File", Henry N. Thompson, Los Angeles; "Uniformity in Federal and State Report Forms", Arch W. Anderson, Chicago; "The Federal Housing Administration", Andrew Miller, San Francisco.

CUSTOMER RELATIONS CLINIC

THE Constructive Customer Relations Clinic has been organized by the Association's Public Education Commission of which John H. Puelicher, president of the Marshall and Ilsley Bank of Milwaukee, Wisconsin, is chairman.

The clinic's program will be under three headings: the importance of constructive customer relations, how the work has been conducted, and preparation of a program for 1934–35. The purpose of the clinic, which will be divided into three sessions—Monday night, October 22, Tuesday afternoon and Wednesday afternoon—is to demonstrate ways and means of leading customer relations clinics for bank employes in individual banks. Speakers familiar with this important phase of banking will explain the work that is being done at present in large and small banks.

The first session will be opened by Mr. Puelicher in the main ball room of the New Willard Hotel at 8 o'clock Monday evening, October 22. He will be followed by President Law whose topic is "First Things First". Lyman E. Wakefield, president of the First National Bank and Trust Company of Minneapolis, is to discuss "The Importance of Constructive Customer Relations", and Mr. Puelicher, whose topic is "Doing the Job Ourselves", will deal with the subject from the standpoint of the unit bank, giving illustrations from his own experience and from his contact with other unit banks. W. H. Neal, vice-president of the Wachovia Bank and Trust Company, Winston-Salem, North Carolina, has for his subject "Dealing with Our Branches". A portion of the time will be devoted to a demonstration of an actual customer relations conference.

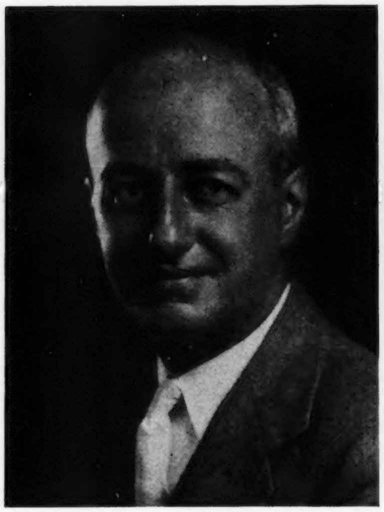
At the Tuesday afternoon conference, following the meeting of the Trust Division, W. R. Morehouse, vice-president of the Security-First National Bank of Los Angeles, who has been conducting a series of constructive customer relations conferences with trust men in his bank, will talk on the subject "Our Trust Men and Customer Relations". I. I. Sperling, assistant vice-president of the Cleveland Trust Company, whose topic is "The Dramatic Touch", will describe his successful experience with constructive customer relations, explaining how the subject has been dramatized at staff conferences in his bank. The third speaker of the second session is W. H. Johnson, Jr., vice-president of the Marine Midland Group, Inc., Buffalo, who will tell how conference leaders have been developed at his institution. This is designed to appeal to the larger banks as a method of handling the program.

The third clinic is scheduled for Wednesday afternoon, October 24. David M. Auch, secretary of the Ohio Bankers Association, will talk on "State Associations and Constructive Customer Relations", with a view to developing the suggestion that state

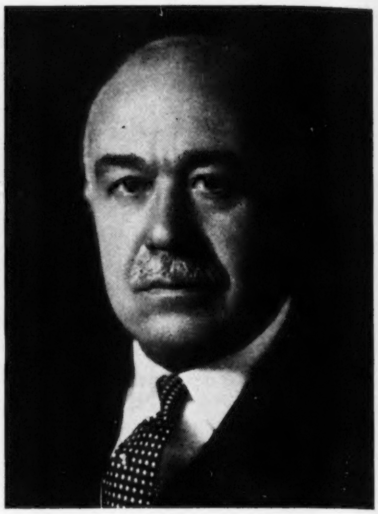
associations can conduct these conferences in their various groups throughout the country.

President Law, in speaking of the clinic, said: "We earnestly hope that, as a result of this clinic, banks throughout the country will make a concerted effort to support our work in this highly important phase of bank management, namely, constructive customer relations."

Proposed Amendments



Charles F. Ellery, President of the American Institute of Banking



John H. Puelicher, Chairman of the Public Education Commission

AMENDMENTS to the Constitution of the American Bankers Association will be submitted to the General Convention.

In submitting a proposed amendment, Thomas B. McAdams, president of the Union Trust Company of Baltimore, says:

"I herewith submit proposed amendment to Article V of the Constitution of the American Bankers Association for presentation to the next General Convention in pursuance of Article XI of the Constitution. The object is to make compulsory the recommendation by the Nominating Committee of not less than two candidates for the office of Second Vice-President of the American Bankers Association. Said amendment to become effective after the adjournment of the 60th Convention of the American Bankers Association held in October, 1934."

Mr. McAdams' proposal reads:

"Amend Article V of the Constitution by inserting in the fifth sentence after the word 'First' the word 'Vice-President' followed by a comma, and before the word 'Second' the words 'not less than two candidates for', and by substituting the word 'Vice-President' for the word 'Vice-Presidents', so that the said sentence, as amended, will read as follows:

"The committee shall recommend a candidate or candidates for President, and First Vice-President, and not less than two candidates for Second Vice-President, and shall report its recommendations at the time fixed in the program for the nomination of officers."

In submitting a proposed amendment to Article VIII of the Constitution for presentation to the General Convention, Mr. Harry J. Haas, vice-president of the First National Bank of Philadelphia, says:

"This amendment affects the second paragraph of Article VIII under the heading 'MEMBERS' and changes the language in the first sentence of said second paragraph preceding the first semicolon, by striking out—the word 'elective' in the first line,—the words 'whose terms of office shall continue not more than two years during their terms of membership in the Council, and',—the words 'at the time of their election', —the words 'one of the' and substituting in lieu of the last quoted words the word 'different', and by striking out the words 'not already represented on the Administrative Committee;'

"That part of the first sentence to and including the first semicolon under the heading 'MEMBERS' of Article VIII as amended, shall read as follows: 'The Administrative Committee shall consist of four members of the Executive Council who shall reside in different Federal Reserve Districts;'"

PROPOSED amendments, unanimously approved and recommended by the Executive Council at its Hot Springs, Arkansas, meeting, April 17–18, 1934, are as follows:

ADMINISTRATIVE COMMITTEE

AMEND Article VIII so that the following words relative to the personnel of the committee, in the first sentence under the caption "Members":

"last living ex-President of the Association"

be changed to read:

"the three last living ex-Presidents of the Association"

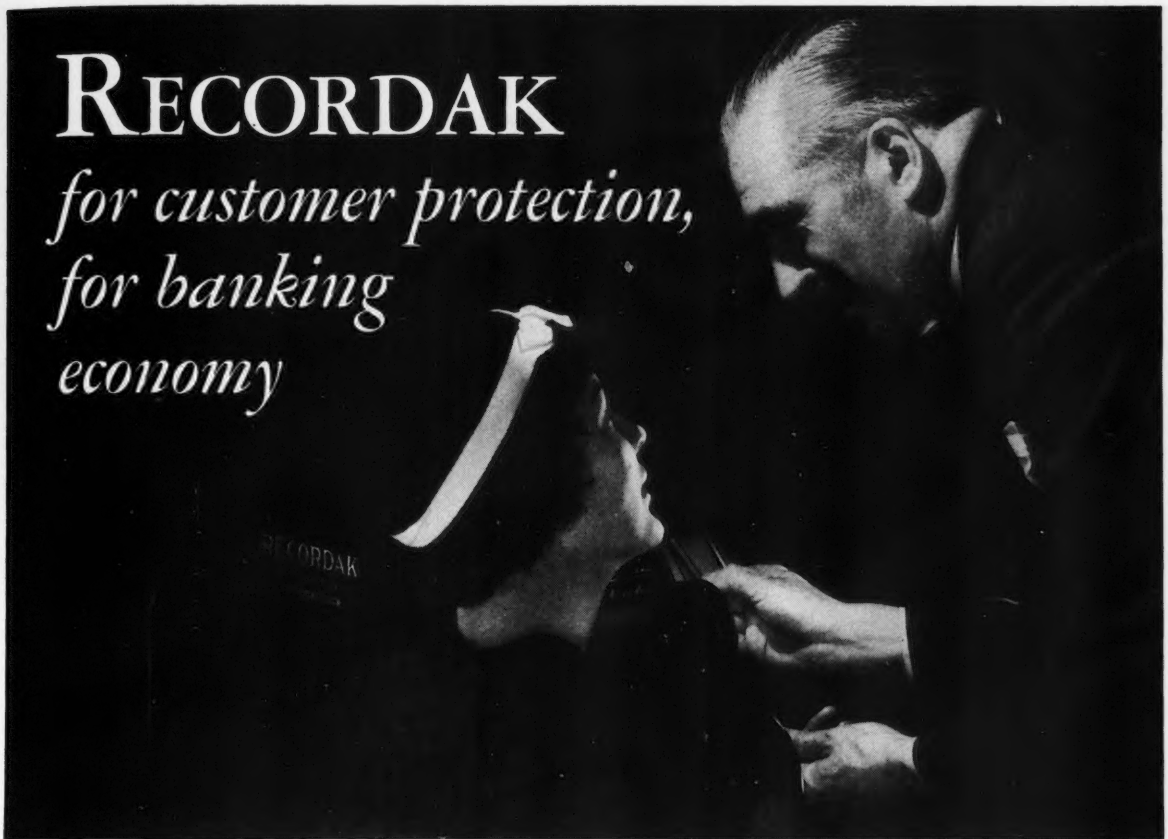
EXECUTIVE COUNCIL

AMEND Article VII, Section 2, providing for the constituent membership on the Council by substituting the word "twelve" for the word "five" in the first sentence thereof, making such sentence read:

"The Executive Council shall be composed of members elected by the states, and the District of Columbia, and of the President, First and Second Vice-Presidents and Treasurer of the Association, ex-Presidents of the Association for a period of three years immediately after the expiration of their terms as President and twelve members at large to be appointed by the President with the approval of the Administrative Committee at the beginning of his term."

To conform with the above it is further proposed to amend Article VII, Section 5, providing the term of office of members of the Executive Council by substituting the word "twelve" for the word "five" in the second sentence thereof, making such sentence read:

"The term of office of the twelve members at large appointed by the President shall be one year and shall begin with the term of the elected members."



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Federal Housing Note Form

By THE LEGAL DEPARTMENT

American Bankers Association

SO long as a note complies with the regulations of the Federal Housing Administration, no particular form is required. However, certain provisions in the regulations make it necessary or desirable for many banks to adopt a different form than they have been accustomed to use. A discussion of the more important provisions which must or may be incorporated in the note, particularly as to their effect on the validity or negotiability thereof, would seem to be timely. It is impossible to give a state by state analysis in this article, so in determining the effect of these provisions in a particular state the laws of such state should be consulted.

Acceleration Provision

1. Upon default in paying any instalment when due, or upon the death, insolvency, bankruptcy, or failure in business of any of the undersigned, this note shall, at the option of its holder, become immediately due and payable, without demand or notice.

A provision for payment in instalments with or without acceleration upon default does not render a note non-negotiable under Section 2 of the Uniform Negotiable Instruments Act. In general, the provision for acceleration for the other causes would not affect negotiability.

Collection Costs; "Late Charge"

2. If any payment shall become overdue for more than fifteen days, I/we jointly and severally promise to pay collection costs of five cents for each dollar so overdue, to cover the extra expense of following up and handling the said delinquent payment.

The purpose of this charge as stated above is taken from Regulation 4 of the Federal Housing Administration. The designation "collection costs" rather than "late charge," or "liquidated damages," seems desirable because it is a more accurate characterization of the charge. The courts hesitate to enforce a provision for payment of a sum of money for default in a payment when due, whether or not such sum is designated as "liquidated damages." In either event, they are inclined to consider such a provision as one for a penalty, which is unenforceable. A strong case can be made, however, for the enforceability of a clause in the above form, and, even if held invalid, it would not affect the validity of any other provision. Under Section 2 (5) of the Uniform Negotiable Instruments Act a provision for costs of collection does not render a note non-negotiable and this charge seems to be of that nature.

Collection Costs; Attorney's Fees

3. If this note is, after maturity, placed in the hands of an attorney for collection, an attorney's fee of......% shall be paid.

3a. If this note is, after maturity, placed in the hands of an attorney for collection, a reasonable attorney's fee shall be paid.

These alternative paragraphs are given since in some states a provision for attorney's fees at a fixed per cent or a definite amount is unenforceable while one for reasonable fees is valid. In a few states such charge in any form is invalid as encouraging litigation and oppressing the debtor or as a penalty or as an evasion of the usury laws. 8 Corpus Juris, p. 148, § 256.

Like a provision for collection costs, a provision for attorney's fees even if held invalid will not affect the validity of any other provision. Such a clause does not affect the negotiability of a note under the express provision of Section 2 (5) of the Uniform Negotiable Instruments Act.

Under Regulation 14 of the Federal Housing Administration, attorneys' fees not exceeding 15 per cent of the amount collected on a defaulted note may be included in the insurance claim, even though under state laws attorneys' fees may not be collected.

Interest After Maturity

4. This note shall bear interest after the final instalment is due at......% per annum.

The rate of interest is assumed to be not more than the contract rate. In most states such a provision is valid and does not render the note non-negotiable. A statement as to a rate in excess of the contract rate is found in 82 American Law Reports—Annotated, 1214, "The general rule is that a provision in a note . . . by which the debtor agrees to pay after maturity interest at a higher rate than permitted by the usury laws, or a sum of money which will exceed that rate, does not render the note . . . usurious, if the parties in making the contract act in good faith, without intent of evading the usury law." However, "In some cases, statutes relating to usury or interest have been construed as prohibiting the charging of more than the legal rate even after maturity; and in some states statutes have been enacted expressly to this effect." 82 A.L.R. 1220.

Even if such a provision for an excess rate may not constitute usury it may be unenforceable as a penalty.

Filling Blanks; Additional Parties

5. Each of the undersigned hereby authorizes the bank to (1) date this note as of the day when the loan evidenced hereby is made; (2) complete any blank spaces in this note according to the terms upon which it grants the loan; and (3) cause the signature(s) of one or more co-makers, in addition to the original number, to be added at any time or times hereto, and to do so with or without notice to any of the undersigned who hereby consent thereto and acknowledge that such may be done without affecting the (joint and several) obligation of the undersigned, as hereinbefore set forth.

The Uniform Negotiable Instruments Act expressly provides that "where the instrument is wanting in any material particular, the person in possession thereof has a prima facie authority to complete it by filling up the blanks therein." Nevertheless, it is always better to have the full agreement between the lender and the borrower clearly expressed in the note. This provision is particularly desirable in view of the preliminary steps required before making the loan. Several days may elapse after the borrower has filled in and signed the "Property Owner's Credit Statement" before the bank can complete its credit investigation of the applicant. If the note can be signed at the same time as the credit statement

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but left undated with authority to the bank to fill in the date on which the loan is made, it will save the borrower the necessity of an additional visit to the bank upon the satisfactory determination of his credit standing. The bank merely fills in the date in the note and mails the borrower a certified check or places the amount of the loan to the borrower's credit. In some instances the borrower will not wish to receive the proceeds until the work is completed, but in order to be assured that he can obtain the loan he must complete the Property Owner's Credit Statement before the work is started. By signing the note at the same time as the credit statement, with a blank date to be filled in at the time the funds are needed, he would save the interest for that period which he would otherwise have to pay on unused cash or credit.

Where the lender has caused co-makers or guarantors to be added to a note without the maker's knowledge and consent, it has been held a material alteration of the instrument, making it unenforceable, and therefore the waiver in clause (3) is most desirable.

REFERENCE TO FEDERAL HOUSING ADMINISTRATION

6. This note evidences a loan made under the "National Housing Act," and in accordance with the rules and regulations of the Federal Housing Administration. On failure of the maker or makers hereof to comply with the provisions of such Act or regulations, all instalments not then due shall, at the option of the holder, become immediately due and payable.

6a. It is hereby certified that the proceeds of this loan have been, or will be, used for the renovation, improvement or alteration of real estate located at ...., as provided for in the National Housing Act.

These paragraphs connect the instrument directly with the National Housing Act, the former making non-compliance with the provisions of the Act or the regulations of the Federal Housing Administration a ground for acceleration of the due date of the note; the latter constituting an assurance that the proceeds of the loan will be used solely for the purpose indicated and enabling the lender more easily to support a charge of false pretenses in obtaining the loan if a different use is made by the borrower. Neither of these provisions affects the validity or negotiability of the note.

Preferred Stock, Capital Notes and Debentures

CAPITAL notes and debentures issued by state banking institutions were presumably intended to be practically the same in substance, although not in form, as preferred stock issued by national banks and by state banking institutions in states permitting such stock, with the same legal principles applicable. However, the question of discrimination arises in several connections. Four illustrations are given:

1. *Federal Income Tax.* In ascertaining the net taxable income of banks, deduction may be made under Section 23 (b) of the Revenue Act of 1934 of "all interest paid or accrued," but no provision is found permitting the deduction of dividends paid. Technically banks pay "interest" on capital notes and debentures but "dividends" on preferred stock.

So far as the income tax on holders of banks' securities is concerned, interest received is included in taxable income, while in general the normal income tax is not affected by dividends received from bank stock. A significant factor is that the Reconstruction Finance Corporation, which is exempt from income and other taxation, is the owner of large amounts of preferred stock of banks as well as of their capital notes and debentures.

The Federal taxing authorities have apparently not yet ruled upon this matter. They may regard substance rather than form and give identical treatment to preferred stock and to capital notes and debentures. A contrary interpretation would result in discrimination against banks issuing preferred stock but also in discrimination in favor of their preferred stockholders, leaving the Reconstruction Finance Corporation out of consideration.

2. *State Income Tax.* The problem is similar to that in connection with the Federal income tax. However, it arises only in those states that tax banks according to their net income, in which state banks have issued capital notes or debentures. Such discrimination, if any, is between national banks and state banks, because in general state banks in any one state have not issued preferred stock and also capital notes and debentures. The major distinction between the Federal and a state income tax is that some states include in the taxable income of bank stockholders, dividends received, which results in equal treatment of holders of preferred stock and of owners of capital notes and debentures. Consequently if there is discrimination against national banks in these states, it is not neutralized to any extent by a discrimination in favor of their preferred stockholders.

3. *Federal Capital Stock Tax.* In the annual adjustment of the value of capital stock, it seems that interest on capital notes and debentures is deducted in ascertaining the "net income" under Section 701 (f) (3) of the Federal Revenue Act of 1934, which net income is one of the items added to the valuation of the preceding year. On the other hand, dividends on preferred stock are deducted as "distributions of earnings of profits," under (f) (B) of such section. Apparently no discrimination exists.

4. *Voting Power.* In general, the holder of preferred stock has such voting power as is given by the applicable statutes, articles of association, or by-laws, while in general the holder of capital notes and debentures has no right to vote.

Savings Deposits

LEAVING PASS BOOK AT BANK: Does the leaving of a savings pass book at the issuing bank satisfy the requirement of Section V (a) of Regulation Q of the Federal Reserve Board that the "pass book or other form of receipt, evidencing" a savings deposit in a member bank "must be *presented* to the bank *whenever a withdrawal is made?*" The Federal Reserve Board says that it does not. Federal Reserve Bulletin, August 1934, page 542. The express ruling is, however, limited to "retention . . . for a continuing period of time."

If a pass book cannot be presented because lost or stolen, Regulation Q could hardly prohibit the issuance of a duplicate which can be "presented."

WAIVER OF NOTICE: FIXED AMOUNT: Can a member bank waive notice as to a fixed amount (such as $100 or $500) of each savings deposit? The Federal Reserve Board has ruled that it can, construing the phrase "any portion or percentage" in Section VI of Regulation Q as including such a specified sum. Federal Reserve Bulletin, December 1933, page 768.

Farm Bankruptcy Act: Constitutionality

THE first judicial decisions upon the Frazier-Lemke Farm Bankruptcy Act held subsection (7) unconstitutional. This subsection provides that if a mortgagee objects to the purchase of the mortgaged farm by the bankrupt mortgagor at the appraised value by small instalments with 1% interest, foreclosure shall be stayed for five years upon payment of "reasonable" rental; then the bankrupt may purchase the farm at an appraised price. The decisions were rendered September 19 at Baltimore by Federal Judge W. Calvin Chesnut in the Bradford and Compton cases. Other cases are pending in other courts.

"NEXT"!

..*not a polite request but a dangerous command!*

THE BANDITS whose operations have resulted in steadily increasing insurance rates for banks use keen minds in studying their prospects.

Investigation shows that time after time they study carefully the equipment and habits of a bank and employees before they make their attack.

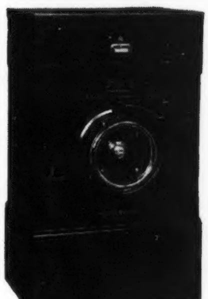
No one can say where the bandits will strike next but you can be almost certain that in the bank which they next attack they have discovered some weakness in the protective equipment.

Adequate protection does much to "take the profit motive out of banditry".

The York Safe and Lock Company, with over a half century of experience in building protective equipment, offers you the service of its representatives in analyzing your bank's needs.

Write us today and let a York engineer or representative analyze your problem and recommend a solution.

York Day Raid Locker



Bankers' Day Raid Unit

NRA MEMBER U.S. WE DO OUR PART

P. Tony Zauber.

President

YORK SAFE AND LOCK CO.

• YORK, PENNSYLVANIA •

MANUFACTURERS AND BUILDERS OF THE WORLD'S GREATEST VAULTS

NEW YORK
BALTIMORE
BOSTON
PHILADELPHIA
SEATTLE

POTTSVILLE
ST. LOUIS
SAN FRANCISCO
NEW HAVEN
HOUSTON
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CLEVELAND
WASHINGTON
LOS ANGELES
PITTSBURGH
MONTREAL

HONOLULU
PARIS
HAVANA
TOKYO
SHANGHAI

« « **FIRE AND BURGLAR PROOF SAFES AND CHESTS** » »

The Cost of Money in the United States

(Continued from page 31)
tion is about one-fourth 2 per cent, one-fourth 2½ per cent and one-half 3 per cent. In Wisconsin the proportion is two-thirds 2½ per cent, one-third 3 per cent.

In the eastern states where the average at the last survey was 3.09 per cent on savings deposits a roughly weighted average of present rates is 2.625 per cent, banks in the larger cities ranging from 2 to 2½ per cent, most country banks charging from 2½ to 3 per cent. In New England generally the savings deposit situation is dominated by the mutual savings banks. Rates paid for deposits have long been higher on an average than in any other part of the country, the weighted average rate for the New England group at the time of the last Association survey being 3.53 per cent as compared with 3.09 in other eastern states, 3.25 per cent in southern states, 2.95 per cent in the Middlewest, 3.18 per cent in the West and 3.49 per cent on the Pacific coast.

Like other institutions, however, the mutuals are being compelled to reduce their rates. In Maine, New Hampshire and Massachusetts the previous rates of around 3½ per cent are being brought down to 3 per cent. In Vermont the state bank commissioner fixed the maximum rate on savings deposits at 2½ per cent as of July 12. In Massachusetts many mutual savings banks have reduced their rates by ½ per cent with more of them preparing for the same cut after the next interest date. Savings banks in New York City are expected to reduce their rate from 3 to 2½ per cent for the current quarter. In most cases metropolitan commercial banks reduced their rates as of either August 1 or September 1 to 1½ per cent on thrift deposits up to $5,000; and 1 per cent on balances above that amount up to $15,000, the limit allowed by the New York Clearing House for thrift accounts. Some banks pay even less, one important institution paying 1½ per cent on all thrift balances, another 2 per cent on amounts up to $5,000 and ¾ per cent on amounts above that limit.

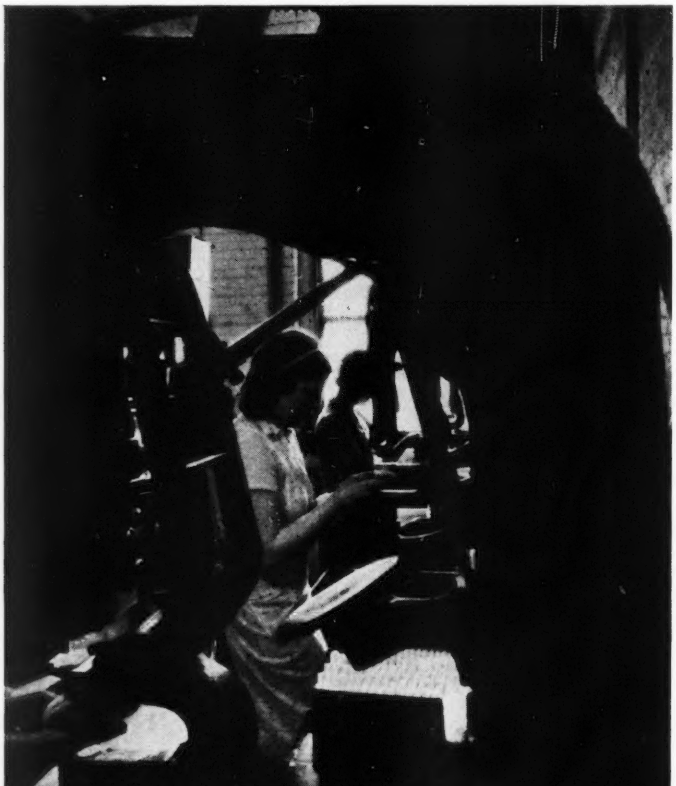
In the southern states, except in the smaller cities and towns, there has been a general reduction of around ½ per cent. In the Atlanta district no bank in the larger clearinghouse cities pays more than 2½ per cent, many of them paying less. Most of the country banks stay close to the 3 per cent limit allowed by the Reserve Board. In the Dallas district the rates are similar.

In the far western states and on the Pacific coast there has been less change in rates than in the East although in the larger cities banks are commencing to follow the example of the large institutions in other parts of the country.

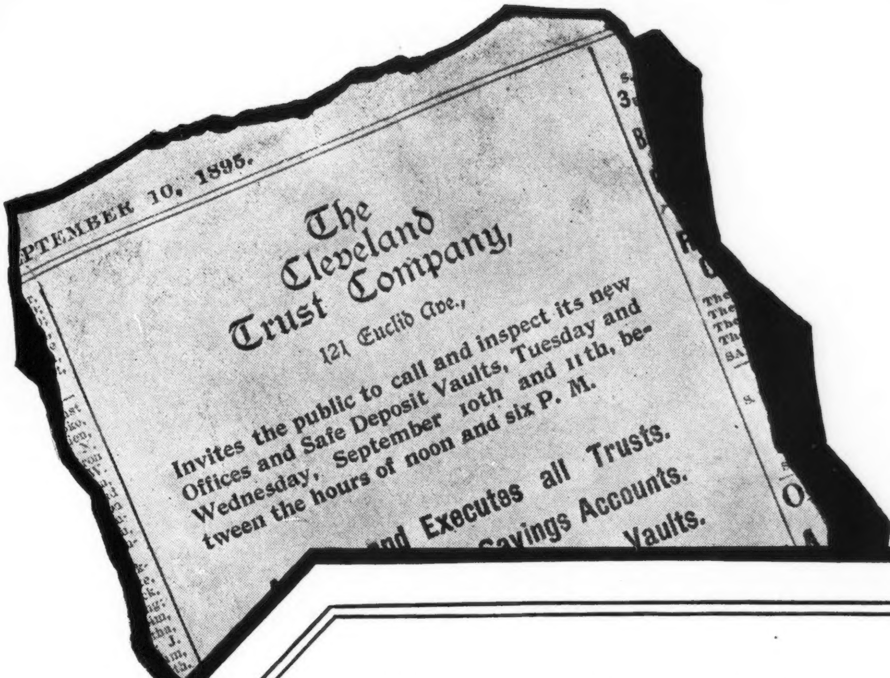
The significant feature of the rates paid by banks in the large cities, especially in the eastern states, is the differential rate between accounts above and below a fixed limit. In New York City, as above indicated, banks pay from 1½ to 2 per cent on thrift accounts below $5,000 and from ¾ to 1 per cent on amounts above that limit, some banks paying no interest on amounts above $10,000. Philadelphia, Cleveland, Cincinnati and several other cities have the same system with some variation in rates. In other words the large city banks compete with savings banks in amounts up to the limit the latter may hold and beyond that offer no inducements to depositors, usually being assured, in fact, that they will be able to retain the accounts whatever the rates of interest offered.

Several facts stand out prominently in the current discussion of the deposit interest problem. One is that with returns on earning assets as measured by rates on customers' loans varying from 3.30 to 5.07 per cent, a uniform rate of interest paid on deposits can hardly be counted reasonable. Another fact is that to attempt to fix rates of interest on all classes of time and savings deposits by law would involve a variety and extent of Government regulation which sooner or later would be properly resented by the banks. A reasonable inference from these two facts is that the whole problem is one to be settled by adjustment among the banks themselves, preferably by clearinghouse action. Much has already been accomplished along this line and more may yet be accomplished.

Manufacture



NESMITH



PTEMBER 10, 1895.

The Cleveland Trust Company,

121 Euclid Ave.,

Invites the public to call and inspect its new Offices and Safe Deposit Vaults, Tuesday and Wednesday, September 10th and 11th, between the hours of noon and six P. M.

nd Executes all Trusts.

Savings Accounts.

Vaults.

Thirty-Nine Years of Usefulness

THIRTY-NINE years ago the notice shown above, announced the beginning of a new banking service in Cleveland.

How well that institution has since served may be judged by the fact that today The Cleveland Trust Company is a nationally-known bank and trust company. 536,000 deposit accounts testify to its "Thirty-Nine Years of Usefulness."

The Cleveland Trust Company

Branch Banks Throughout Greater Cleveland

MEMBER FEDERAL RESERVE SYSTEM

Resources Over $275,000,000

Informative Bank Statements

By J. W. MILLER

FROM my observations I have formed the opinion that there is a great need for daily bank statements that portray a more accurate picture of a bank's condition.

I am presenting a model statement of condition here which seems to be a vast improvement over most bank statements used today. It is a statement which may be used to great advantage in the internal control of a bank and also in presenting a true picture of the bank's set-up to the rightfully interested public. It is not intended that this statement should reveal all the facts necessary for intelligent bank management. Other detailed statements revealing operating results are invaluable for a variety of purposes.

It will be noticed that the assets which are pledged to secure certain liabilities are completely separated from the "free assets," those assets which are unpledged and to which the unsecured creditors must look for ultimate payment. The secured liabilities are separated from the unsecured. In this way the bank operating official can tell at a glance the amount of his unsecured liabilities and the approximate liquidity he has for meeting demands from this source. He is also shown the total assets pledged, and he may quickly determine their excess or deficiency as compared with the total liabilities which they secure.

The free assets are grouped according to their liquidity.

In the first classification are included the cash on hand, the legal reserve account at the Federal Reserve bank, the balances with other banks and the items in process of collection. I have termed the total of these items "cash means".

Next we have United States Government securities on hand, other general market bonds and securities on hand, commercial paper, loans eligible for rediscount at the Federal Reserve bank and loans fully secured by marketable collateral. The total of these items plus the cash means represents the total quick assets. The bank's liquidity ratio can easily be determined by applying its total quick assets to its total unsecured deposits.

In the third classification is listed the balance of the free assets. By adding these to the total quick assets we arrive at the total of the bank's free assets from which it must realize funds to meet its unsecured liabilities. Below the free assets are grouped the assets which are pledged.

MODEL STATEMENT OF CONDITION

ASSETS

Cash on Hand	$416,032.12	
Legal Reserve Account—Federal Reserve Bank	421,063.79	
Balances with Other Banks	462,097.32	
Items in Process of Collection	369,371.18	
TOTAL CASH MEANS		$1,668,564.41
U. S. Government Secs. on Hand	779,032.21	
Other General Market Bonds and Securities on Hand	428,411.36	
Commercial Paper	600,000.00	
Loans Eligible for Rediscount at Federal Reserve Bank	732,097.36	
Loans Fully Secured by Marketable Collateral	490,221.94	3,029,762.87
TOTAL QUICK ASSETS		4,698,327.28
Other Bonds and Securities on Hand		112,076.21
Other Loans and Discounts		878,388.42
Real Estate Loans		596,111.96
Overdrafts		1,263.42
Accrued Earnings		46,039.73
Bank Building	360,000.00	
Furniture and Fixtures	24,092.11	384,092.11
Federal Reserve Bank Stock		24,000.00
TOTAL FREE ASSETS		6,740,299.13
ASSETS PLEDGED		
To Secure Deposits:		
U. S. Gov't Securities	262,011.29	
Other Bonds and Secs.	169,769.26	431,780.55
TOTAL		7,172,079.68

LIABILITIES

Cashier's Checks		$36,920.32
UNSECURED DEPOSITS		
Demand:		
Individual and Commercial	$2,932,360.83	
Banks	436,487.19	3,368,848.02
Time:		
Savings	1,762,096.73	
Certificates of Deposit	462,738.42	
Others	129,602.70	2,354,437.85
TOTAL UNSECURED DEPOSITS		5,760,206.19
SECURED DEPOSITS		
Demand:		
Trust Department Deposits	267,959.73	
United States Deposits	20,603.51	288,563.24
Time:		
Postal Savings		103,090.11
TOTAL SECURED DEPOSITS		391,653.35
TOTAL DEPOSITS		6,151,859.54
Discount Collected, Not Earned		12,072.11
Reserve for Interest and Expenses Accrued		26,092.76
Capital	400,000.00	
Surplus	400,000.00	
Undivided Profits	156,092.11	
Current Earnings	25,963.16	982,055.27
TOTAL		7,172,079.68

Percentage of Cash Means to Total Unsecured Deposits	28.97
Percentage of Quick Assets to Total Unsecured Deposits	81.56
Percentage of Free Assets to Total Unsecured Deposits	117.01

FIGURES

THAT INVITE A CLOSER ACQUAINTANCE

From January, 1933 to January, 1934, our daily average due to bank correspondents rose 316%; by June, 1934, it had risen to 477% over the original figure.

It is not primarily the rate of growth that we—or you—are interested in; it is the facts behind the growth. We have added to our staff carefully selected executives in correspondent work; shaped our methods to offer our correspondents the utmost cooperation in Cleveland.

We believe that the developments here at the National City warrant closer acquaintance on your part.

NATIONAL CITY BANK

OF CLEVELAND

DICTATING MACHINES HAVE CHANGED!

See Edison's Revolutionary New PRO-TECHNIC EDIPHONE

12 PROVED ADVANTAGES . . . A GUARANTEE of 20% to 50% INCREASED BUSINESS CAPACITY

EDISON has produced a thoroughly new, fully enclosed instrument, the PRO-TECHNIC EDIPHONE. Its "Balanced" Voice Writing makes dictation easier and faster. It guarantees full-time secretarial service, without old-fashioned "dictation periods". The Pro-technic Ediphone provides a Voice Writing service that allows dictators to dictate at any time without waiting—easier than telephoning. Dictators have more time for planning, for outside calls. Secretaries become more valuable.

Free demonstration at your desk!

To prove that dictating machines have changed, every responsible executive is invited to "sample" Ediphone Voice Writing — without obligation.

Without Cost to You—Edison Will Train Your Office

Telephone The Ediphone, Your City, or mail the coupon to Thomas A. Edison, Inc., Orange, N. J. and an Ediphone representative will explain each of the 12 Pro-technic advantages to you. He will introduce this NEW Voice Writing in your office, taking full responsibility for smooth and efficient service until Voice Writing becomes as much a part of your office routine as telephoning.

YOU BUY NOTHING until Edison proves it can increase your dictators' business capacity and your secretaries' capacity to assist.

FOR FREE-PROOF OF EVERY EDISON CLAIM MAIL COUPON!

Thomas A. Edison INCORPORATED ORANGE, N. J. U. S. A.

NRA CCDE

I want to know if Edison will guarantee to increase our business capacity 20% to 50%.

FIRM NAME________________ A

MY NAME________________ TITLE________________

ADDRESS________________

Treasury Income

INTERNAL revenue collections by the Treasury in the fiscal year 1934 totaled $2,300,816,308.88, an increase of 42 per cent over the previous fiscal period, according to the Department's preliminary figures. This total does not include $371,422,885.64 in processing taxes for the benefit of agriculture.

Miscellaneous internal revenue amounted to $1,483,790,969.16, an increase of $610,743,148.97 over 1933, while income taxes were up $70,233,935.61 to a total of $817,025,339.72. New York State's share of the internal revenue and income taxes was $528,994,948.71, an increase of 41 per cent over that state's contribution in the previous year. North Carolina, where heavy tobacco taxes are paid, ranked second to New York in the amount paid, having a total of $230,632,858.61, although this was only 8 per cent above the previous year. Pennsylvania, taking third place, paid $183,687,536.45, an increase of 61 per cent.

The gains, said the Internal Revenue Bureau, reflected "not only differences in underlying business conditions affecting the bases for the various collections, but also changes in the tax system."

Estate taxes jumped to $103,985,288 in 1934 from $28,693,061 in the 1933 fiscal period; distilled spirits and wines $89,951,747.45 compared with $8,021,550.25, and fermented malt liquors $168,959,585.17 against $35,158,272.19 in the year preceding repeal. Other fruitful sources of revenue included the capital stock tax, yielding $80,168,344; the tax on dividends, contributing $50,229,122; and the gasoline levy, whose yield in 1934 was $77,645,622 greater than in 1933 as a result of the additional half cent a gallon tax.

The processing taxes yielded as follows: cotton, $144,767,232.64; wheat, $117,621,174.82; hogs, $77,034,611.24; tobacco, $18,088,426.05; paper and jute, $9,244,830.78; field corn, $4,496,193.74; sugar beets and sugar cane, $170,416.37.

As a result of the higher estate and gift taxes of the 1934 Revenue Act and the taxes on beverages, it is assumed that the total revenue return in 1935 will be larger.

The cost of collecting the internal revenue levies, exclusive of the processing taxes, was $1.25 per $100, a reduction of 60 cents as compared with the fiscal year 1933.

...OF INTEREST TO BANKERS IN FARMING COMMUNITIES

Last fall, the following message from the J. I. Case Company appeared in this publication. It is reprinted here because the future of agriculture and the implement business is even surer now than a year ago.

"The whole country has come to realize that agriculture must be prosperous. It is the one basic industry without which manufacturing and commerce cannot exist.

The American farmer produces more in primary wealth than all our mines, oil fields, forests and fisheries.

The American farm family and the rural population buy and consume more goods than any other class in the country.

Business conditions have always fluctuated with farm prosperity. When farm income is low, business in general lags. When farm income rises, all commercial activity picks up.

All business now rejoices with the dawn of better days for agriculture. Already there is a marked improvement in farm purchasing power, and the road ahead is being cleared for further and more rapid progress.

Modern Machines Essential to Farm Prosperity

We don't have to go back more than 80 years to witness machineless agriculture. Practically every farm operation, with the exception of plowing and hauling, was done by human labor. Seed was broadcast by hand. Row crops were cultivated with a hoe. Small grain crops were threshed with a flail.

Modern machinery is still changing farming methods . . . lowering production costs, aiding diversification and better farm practices. Today, modern machinery is needed more than ever before.

It is significant to dealers that the Case Company today has more new and highly efficient machines to offer than at any other time in its 91 years of service to agriculture.

Stored Up Demand

Not only will the farmer's demand for new and more efficient machines grow with his increasing ability to buy, but the present accumulated need for farm implements is tremendous. The value of machinery on farms is nearly 2½ billion dollars. It is estimated that about one-third of these machines are practically worn out.

Better days are ahead in agriculture. Implement dealers who have the initiative to take advantage of their opportunities are facing perhaps the best days the industry has ever enjoyed."

. . . AND THE PREDICTION CAME TRUE

In spite of unfavorable weather in many sections and other obstacles, the implement business has shown big improvements so far in 1934.

Let us just view briefly and impartially what has taken place. Farm income from all sources is estimated to be about 25% higher than last year. Sales of farm implements are considerably ahead. By the way of illustrating the opportunities for dealers, we want to mention that those who a year ago saw the advantages of the Case contract and followed the Case plan have done well and enjoyed a good share of the business in their localities.

What of the future? The large stored up demand for all kinds of farm equipment still exists. With steady improvement in farm buying power through better prices for grains and livestock, Case believes that there are better days ahead for farmers and for implement dealers. The opportunities for success in this business are more promising than for years, especially under the Case plan.

J. I. CASE CO., *Racine, Wis.*

CASE
77 *Modern*
Farm Machines

YOUR INTEREST AS A BANKER

We believe every country banker is watching with keen interest the come-back of the farmer. In this come-back he can either be helped or hindered . . . helped in obtaining long put-off equipment purchases . . . or hindered by being denied the proper tools with which to do his work and make a fair profit. And after all, your business and that of farming are interdependent . . . upon the prosperity of one depends the prosperity of the other.

The trend of the managerial policy of this Bank is in the direction of increased efficiency and better service. Such a policy inevitably produces a gradually increasing volume of business.

By routing your items through us you are assured of prompt advices and quick returns. Our large volume enables us to operate at a minimum per-item cost, which is reflected in the mutual value of your account.

... THE ...

PHILADELPHIA NATIONAL BANK

ORGANIZED 1803

PHILADELPHIA, PA.

Capital and Surplus $30,000,000

Credit For Small Homes

THE United States Building and Loan League, at its annual convention in New Orleans, October 24, 25 and 26, will give special attention to home mortgage lending policies in the light of National Housing Administration activities, Federal Home Loan Bank operations and anticipated changes in real estate price levels.

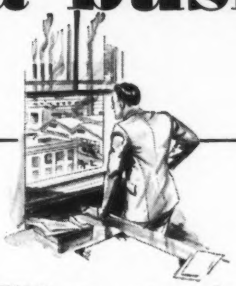
"Practically every angle of home lending," said Philip Lieber of Shreveport, Louisiana, president of the League, "will receive consideration and distinct efforts will be made to give the good risk, home-owning family the most carefully thought out and time tested improvements in credit offerings.

"The depression years have shown so conclusively that the monthly amortized, long-term home loan is the only practical method that we do not have to dwell upon such fundamental proposition as this in our convention discussions. What we will be most concerned with are the details of long term, amortized mortgage lending, the percentage of loans which can be made, the rates at which credit can be offered, the economics of lending at the beginning of the upturn in the business cycle as compared to lending at the top of the boom period.

"Many of the outstanding thrift and home financing institutions have been working this summer on special plans for their own use, covering one or more of these important details, and there will be plentiful discussion of these plans in the convention sessions."

NESMITH

Why does any man start a business?



"BECAUSE HE HOPES TO MAKE MONEY," you say. True, just as the men of the Covered Wagon hoped to find gold or richer soil. But there is another reason. A man lives only once. There is inside him a restless urge to *do* something, to *build* something, to have something to show for the years of his life. So he gathers his courage and jumps. And having taken the jump he finds that he has kissed good-bye to ease and peace for a long long time.

Skilled workmen alone cannot operate a business. There must be a leader. He must organize a process, train employees, search the world for raw materials, win recognition and acceptance in the markets, meet the daily menace of competition, find each week the pay for hundreds who could not live without it, shoulder the heavy load of taxation, and finally earn a fair return for those who have trusted him with their savings.

The higher up he gets the harder it is to stay. For any business is a growing, living organism. It is never completed . . . never safe.

What does it get him?

By actual statistics, he has one chance in a hundred of moderate wealth; one chance in four of a living; a bare chance of keeping the business going for more than six years.

And as he succeeds, the affairs and responsibilities of the community are added to his load. With others he is expected to plan and work to make his a better city . . . with better streets and schools, fewer slums, a finer hospital, more useful churches, less sickness and hardship.

During the past four years, thousands of business men have lost all that they made in prosperous years because they refused to close up unprofitable enterprises and throw employees out of work. There are few who would not be vastly better off today if they had quit four years ago and bought government bonds.

But the kind of man who starts a business is rarely a quitter. He may fail, but he doesn't curl up. He is not a vocalist. As a general thing he takes abuse without much grumbling or complaint. If he is beaten, he gathers the pieces together and tries again.

In a recent editorial, Bruce Barton quoted a prominent business man as follows: "Our point of view is that the *times are the times*. We cannot change them. We can only accept them and keep busy trying to better our products and adapt our methods to whatever conditions prevail."

In the business men of America lives the spirit that made America. It is their courage and enterprise and faith which built our cities, created vast utilities, erected industries employing millions, and brought about a manner of living and a horizon of opportunity which the world had never known and knows nowhere else.

Remington Rand is proud of the part that it plays in aiding business men to get facts. Because Remington Rand manufactures every type of record form, equipment, typewriter and accounting machine, it can accept full responsibility for organizing and installing a complete business method, each part of which functions economically.

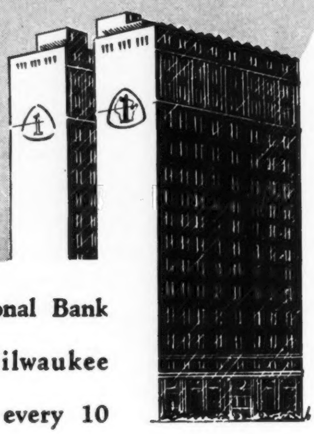
The Remington Rand man has nothing to sell except a satisfactory result. He can advise without bias because he represents a *complete* range of office machines and equipment. He is backed by experience that enables him to prescribe intelligently and without guesswork.

No business, small or large, can fail to gain by consulting this organization. There is a Remington Rand man within reach of your telephone—offices in all principal cities. Remington Rand Inc., Buffalo, N. Y. (Canada: 68 King St., W., Toronto.) World's largest manufacturer of office equipment.

Remington Rand

BUFFALO, NEW YORK

BANKERS' CHOICE . . . .



The First Wisconsin National Bank has been chosen as Milwaukee depositary by 8 out of every 10 banks in Wisconsin. This one fact alone reflects the standing of this institution in this important trade territory. The First Wisconsin is the largest bank in the state, a modern commercial bank especially well qualified to serve other banks and business corporations. Resources approximately $180,000,000.

FIRST WISCONSIN NATIONAL BANK

OF MILWAUKEE

Wisconsin's Bank for Banks

The Health Asset

THE passing of another vacation season is a reminder that a year's dividends have again been paid to the silent partner of every business enterprise, health.

It is a commonplace of banking practice that health constitutes a vital part of the business man's collateral. Sick men are just as poor risks for banks as for life insurance companies; the ability of a borrower to repay his loan may well depend upon his ability to carry on with his work, particularly if he is the dominant figure in his business.

Modern commerce and trade recognize that the physical welfare of the men and women who do the work, as well as of those who provide the ideas, is an important balance sheet asset. In many ways it is the most important. Certainly it is difficult to picture an enterprise run successfully by the ailing.

Banks, especially, have long realized that the physical factor is important in the conduct of business. To promote and safeguard the health of officers and staff they have provided extensive and often expensive facilities and services, such as periodic health examinations, dispensary care, athletic and recreational activities, regular vacation periods, correct lighting, control of temperature and humidity. Costs of such services are considered part of the expense of operation; they represent the premiums on efficiency insurance, quite apart from humanitarian considerations.

Life insurance statistical records make no separate classification of bank employees, grouping them, rather, under the general heading "office workers." It is therefore impossible to rate separately the health of bank personnel as a group, although there is reason to believe that it stands close to, if not at the head of, the list.

The hazards of bank employment, actuaries have decided, tally closely with those of other sedentary occupations. Thus the common cold is the most frequent cause of lost time, just as it is throughout industry and business. The handling of money, it has been found, is not in itself an unusual hazard, and insurance companies, in writing group policies for banking institutions, give no consideration to the old theory that "money carries germs."

ASSURANCE OF SAFETY

FOR more than 50 years the Standard Accident Insurance Company of Detroit has provided safe Casualty Insurance and Bonding Protection to weatherwise individuals and corporations. Over a million people are protected with Standard policies. Over 135 millions of dollars have been paid on behalf of Standard policyholders. ★ The wisdom and experience of 50 years, and a national reputation for satisfactory service and settlements stand back of every Standard policy. They are your guarantee of proper protection and fair treatment. ★ Responsible insurance representatives everywhere can supply you with insurance in the Standard.

Standard writes Automobile Insurance, Personal Accident and Sickness Insurance, and policies covering Burglary and Holdup, Plate Glass Breakage, all forms of Liability Insurance, Workmen's Compensation and Fidelity and Surety Bonds. A national organization of agents, inspectors, safety engineers, auditors and claim adjusters assures prompt, satisfactory attention.

★

STANDARD ACCIDENT INSURANCE COMPANY of Detroit

An All-Inclusive Protection Plan For Banks That - DEFEATS BANDITRY

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The Private Banking System

"CAN you picture," asked James P. Warburg, vice-chairman of the Bank of the Manhattan Company, New York City, in an address at the convention of the Financial Advertisers Association in Buffalo, "what business would be like if banks were run by political appointees who obtained their jobs under the spoils system?

"Can you imagine what would happen when one party succeeded in throwing the other party out of power? And can you see how adding to the present army of Federal office holders another army of bank officials would tend to give the party in power an almost unlimited machinery for keeping itself permanently in office?"

THE SYSTEM ON TRIAL

THE private banking system in this country, Mr. Warburg said, is "on trial for its life", and a decision on its fate will probably be reached this winter. The case offered against private banking, he asserted, is: "The system has failed and, therefore, Government banking is the answer." Both contentions, the speaker declared, are wrong.

"Our particular kind of private banking system failed under certain particular circumstances," he continued. "That is perfectly true. But that is quite different from saying that private banking as a whole has failed. And if private banking as a whole had proved itself inadequate, which it has not, then it still would not follow that Government banking would be any better."

Mr. Warburg advocated modernization of the banking laws so that they would conform with the requirements of present economic life. This applied, he said, not only to the laws governing operations of individual banks, but to those governing the issuance of currency and the rediscount functions of the Federal Reserve System.

"If bankers decline to take a hand in working out the necessary reforms," he said, "they cannot justly complain if the train leaves without them."

Bank Women

THE Association of Bank Women will hold its twelfth annual convention in Washington from October 22 to 25, coincident with the Sixtieth Annual Convention of the American Bankers Association.

The chairman of the general convention committee, Miss S. Winifred Burwell, assistant trust officer of the National Metropolitan Bank of Washington, finds that social and economic changes in the past year have brought bank women "fresh opportunities for constructive, intelligent management."

"We have, within the past twelve months," she says, "witnessed the adoption or the actual functioning of momentous experiments in banking and finance, the bulk of these changes not concentrated, as in other years, on commercial and industrial financing but directed largely at those elements affecting the homes of the people, and the lives of the people in those homes.

"The country's mothers and housewives have been compelled, many of them for the first time in their lives, to take a definite and active hand in the management of family finance during recent years and bank women, by the same forces of readjustment, have had to arise to the occasion. Hence, it can be seen that the forthcoming convention will be far more than a routine 'get-together'."

Convention headquarters will be the Mayflower Hotel, where the meetings will be held. Miss Agnes M. Kenny, manager of the women's department of the First Wisconsin National Bank of Milwaukee, is president of the Association of Bank Women. The following have been named convention chairmen:

Miss Mina M. Bruere, Central Hanover Bank and Trust Company, New York, program committee; Miss Susan B. Sturgis, First National Bank, Boston, entertainment committee; Miss E. Nora Gibbons, Fulton Trust Company, New York, hospitality committee; Miss Jean Arnot Reid, Bankers Trust Company, New York, steering committee; Miss Anetta G. Foster, Michigan Trust Company, Grand Rapids, registration committee; Miss Gertrude M. Jacobs, Marshall and Ilsley Bank, Milwaukee, nominating committee; Miss Alice L. Fraser, Citizens National Bank, Freeport, New York, badges committee; and Mrs. Mary Berkeley Finke, Morris Plan Industrial Bank, New York, publicity committee.

As the New York City member of the Marine Midland Group, this bank is an entity . . . an autonomous organization complete in itself. On behalf of its customers, it is privileged to draw on the experience and local contacts of the 21 other banks in the Group.

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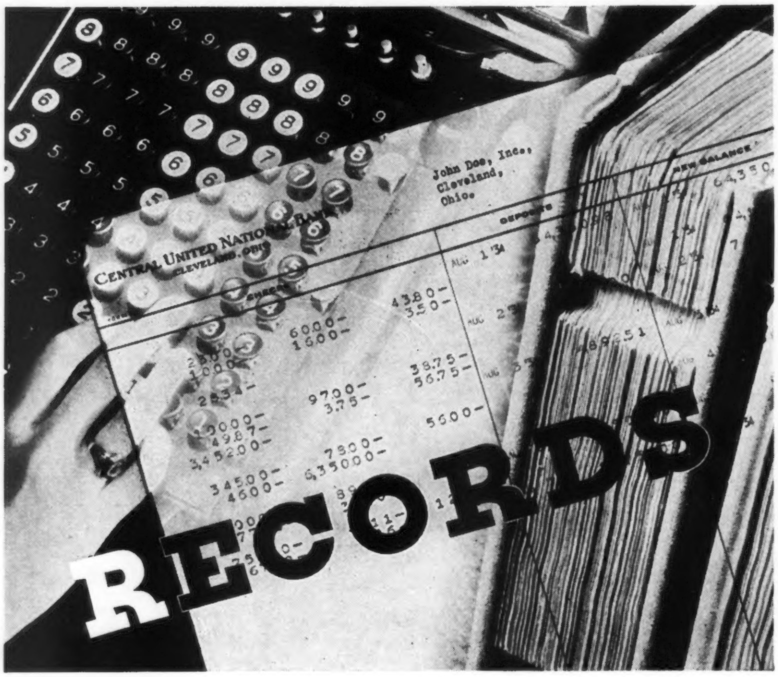


★ Records of Central United National Bank's cooperation with the world of business show a long list of new names on the list of banking correspondents . . . also a rising trend of activity in the Fourth Federal Reserve District.

Inquiries are invited from banks having occasion to avail themselves of the complete facilities of Ohio's largest national bank and its intimate acquaintance with the current business picture in the Cleveland area.

CENTRAL UNITED NATIONAL BANK
OF CLEVELAND
THE LARGEST NATIONAL BANK IN OHIO

Banking Strength

WHEN Leo T. Crowley, chairman of the Federal Deposit Insurance Corporation, made public the consolidated returns from the call upon all banks, he expressed the view that the banks were far too liquid and that an average liquidity of 40 per cent was quite high enough under current banking conditions. The banks, he thought, could lend $5,000,000,000 and still meet all the requirements of depositors.

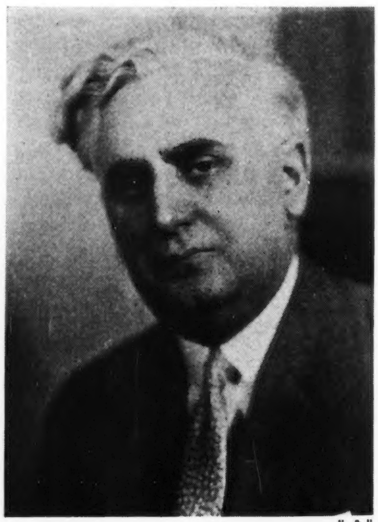
"If the banks can find sound loans," he remarked, "they should make them. We don't have to have 54 per cent liquidity."

The F.D.I.C. observed its first birthday on September 11 and on that occasion Chairman Crowley sent President Roosevelt some statistics covering its operations. He reported that the more than 14,000 insured banks had deposits exceeding $35,000,000,000; that the plan fully protected more than 97 out of every 100 insured depositors; that about 90 per cent of all the licensed financial institutions in the country were members of the fund; and that some 50,000,000 accounts were insured.

Five small insured banks closed during the past year. Funds for paying their depositors were made available within ten days after the appointment of officials.

Mr. Crowley will address the American Bankers Association Convention in Washington.

Leo T. Crowley



U. & U.

Average Charges on Bank Items

To the Editor:

YOUR article, "Useful Analysis Short-Cuts," on page 29 of the August issue of the Association's JOURNAL has been read with interest. Would you care to advise me if the figures used therein are merely for illustration or are they approximate average costs?

Without question, costs differ over selected areas but is it possible from your experience to say what the average charge (not cost) is, broadly speaking, over the United States, of deposits made, items deposited and checks drawn?

GEORGE B. SCHWAB

672 East 29th Street,
Paterson, New Jersey.

THE ANSWER

To the Editor:

These figures were merely for illustration and were not intended to be actual cost figures of any bank or the average for any group of banks.

I feel reasonably sure that no statistics are available which would answer your request for the average charges used by banks throughout the United States for handling the different items. However, I have endeavored to keep informed on this subject and am listing some figures which I think might be of some help to you.

Classification	*Variation of charges made by banks*	*What might be considered a fair charge for the average bank*
Transit Items Deposited	1 to 2½¢ each	1½¢ each
Clearing Items Deposited	½ to 1½¢ each	1¢ each
Checks Written	2½ to 4¢ each	3¢ each
Deposits	6 to 10¢ each	8¢ each

The great variation in the different charges as shown above, which is undoubtedly due to similar variations in actual costs, is a challenge to bank managements. It is true that certain costs will vary according to the volume of business transacted, but it is unreasonable to think that this alone would cause such large differences.

I hope you will find the above figures of some value and would like to hear from you if you have any further inquires on this subject.

J. W. MILLER
Assistant Auditor
Fort Wayne National Bank
Fort Wayne, Indiana

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Our Neighbor's Money

(CONTINUED FROM PAGE 34)

During the past quarter-century many of these existing banks have absorbed other banks, although there have been no mergers during the past few years. It is unnecessary to list the names of these merged banks; few of their notes are still in circulation. Any that are, are good.

In appearance all Canadian currency —with the exception of the diminutive 25 cent scrip issued by the Government —is the size of our old notes. The 2½ inch by 6 inch size has not yet been adopted by any Canadian source of issuance. Possibly this fact adds to its unfamiliarity. We forget the immediate past so quickly in these hectic days that our old currency is becoming as queer-looking as the infamous Continentals. (A customer recently brought in one of the old large-sized $5 notes issued by one of our own Federal Reserve banks, and told us that he had had it refused in trade!)

Canadian banknotes usually bear the portraits of past or present bank presidents and general managers. An exception to this rule is The Canadian Bank of Commerce, whose notes are of somewhat more exotic design, with Greek gods and goddesses displacing the staid financiers of the other institutions. The Government issues bear the well known figures of the British royal family. The new quasi-governmental reserve bank, the Bank of Canada, now in the process of formation, will also be issuing notes.

There is no reason, while the present exchange conditions prevail, why Canadian paper money should not be at least as acceptable to any American bank, no matter where situated, as our own money. Some knowledge of foreign exchange rates is, of course, required, but any newspaper in the country, putting up any pretense of printing a financial page, will give the necessary information as to the New York rate on Montreal funds. This rate, naturally, must be coarsened in counter transactions, but such coarsening should not exceed 1 per cent or 2 per cent, and less when more than a few dollars is involved.

The problem of disposal of Canadian currency is simple. All the Federal Reserve banks, I believe, accept it, allowing the going rates. It can also be cleared, by country banks, to city correspondents, who will in turn clear to their Canadian correspondents, or in the western states it can be sent to one of the Canadian bank branches on the American Pacific coast, which will remit American funds in payment plus the going rate of premium—or less the discount should exchange move the other way.

Reference was made above to Canadian travellers' checks. These are issued by most, if not all, of the Canadian banks, and are clearly expressed as payable in American or Canadian dollars (different forms are used for each currency). I find that these travellers' checks are regarded by such American bankers as are unfamiliar with foreign exchange, with even more suspicion than Canadian notes. Again, no doubt, the reason is unfamiliarity. But they should be equally acceptable. If they are payable in Canadian dollars they must, of course, be cleared, directly or indirectly—through correspondent banks—to Canada, but the checks drawn in American dollars are simply self-identifying drafts on New York. Forgeries are almost unknown.

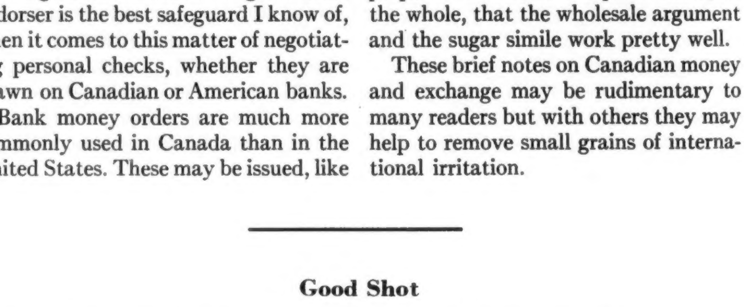
Into the question of negotiating personal checks for Canadians I will not venture. The "N.S.F." check problem is prevalent in Canada as it is here. Let the negotiator beware! A good local endorser is the best safeguard I know of, when it comes to this matter of negotiating personal checks, whether they are drawn on Canadian or American banks.

Bank money orders are much more commonly used in Canada than in the United States. These may be issued, like travellers' checks, in either Canadian or American dollars, and should be treated by a negotiating American bank in the same manner as travellers' checks. Likewise the express orders of the Canadian Pacific Express Company and the Canadian National Railways Express Department. Post office orders are best negotiated through the designated office of payment.

In conclusion it occurs to me to mention, for the benefit of bankers encountering Canadians or other holders of Canadian paper who are too well aware of the New York rate for Montreal funds, that I have found the following method useful: When a customer to whom I have quoted, say 1 per cent premium, confounds me with the fact that the morning paper lists Canadian funds at 1½ per cent premium, I point out that 1½ per cent is the wholesale rate, for large blocks of exchange between banks. "Now," I say, "when you buy a pound of sugar from your grocer you don't expect to get it at the wholesale price, do you?" I sometimes whimsically add that even bankers must live, and while customers are not always prepared to concede this point I find, on the whole, that the wholesale argument and the sugar simile work pretty well.

These brief notes on Canadian money and exchange may be rudimentary to many readers but with others they may help to remove small grains of international irritation.

Good Shot



LONDON NEWS OF THE WORLD

CUSHING

Many private pension plans for bank employees date back a quarter of a century

Bank Pension Plans

(CONTINUED FROM PAGE 40)

the matter is entirely flexible and the management of the bank may retire an employee earlier or later than the normal retirement age, as best fits the individual case. The setting up of a definite age, however, helps the employee to plan on a definite time of retirement and enables the employee and the employer together to build up reserve adequate to provide the retirement income at that time.

The usual amount of pension suggested is 1½ per cent of pay for each year of service, while the employee is a contributor to the plan. The usual system is to have the employee and the employer jointly purchase each year a retirement income unit (in reality a deferred annuity if insured), equal to 1½ per cent of pay for that particular year. In this fashion there is purchased and definitely segregated each year an annuity unit that becomes due and payable at the age of retirement. It will be evident, therefore, that at the end of a period of 35 years' membership in such a plan an employee would have 35 units, each equal to 1½ per cent of his pay during each of his years of membership.

In other words, an employee joining the plan at age 30 and retiring at 65, would have 35 times 1½ per cent or 52½ per cent of his average pay received during membership in the plan.

Credit for past service, that is service rendered prior to the adoption of the soundly financed contributory plan, has in many instances been fixed at 1 per cent of present pay, multiplied by the years of completed service up to the time the new plan was made effective. In other words, an employee having already completed 30 years of service would be credited with 30 per cent, for example, of his 1934 earnings. However, because 1934 was, in most cases, a considerably lower year from an earnings standpoint, some employers might prefer to take the average for the last five or ten years.

Employees deposit 3½ per cent of pay by payroll deduction each month. This 3½ per cent goes to the purchase of an annuity unit as described above. It should be clear that the contribution of 3½ per cent together with the employer's contribution, buys the 1½ per cent annuity unit. This annuity unit is not payable for one year only, but if retirement takes place at age 65 it is payable, on the average, for 12¾ years—12¾ years being the expectancy of life after age 65. In other words, for each 3 per cent contribution by the employee, he may expect to receive, on the average, more than 12 times the 1½ per cent annuity unit as a retirement income.

The employee's contributions are always returnable to him in full in case he leaves the service, or to his beneficiary in event of death. Arrangements can be made to allow a reasonable rate of interest credit on the contributions when withdrawn. Even in the case of death after retirement but before the employee has received the total amount of contributions in annuities, the difference is payable to the beneficiary.

Usually these retirement plans invite employees to become members upon the completion of one year's service. This seems desirable for several reasons.

First, the employee commences his contributions at an early age so that a reasonable and effective amount of retirement income may be built up by the time he reaches age 65.

Second, it is important to enlist the cooperation of the employee as early as possible in order to make the plan general for the entire working force.

Finally, a waiting period of one year eliminates the bulk of the turnover of the average organization.

THE COST

NATURALLY an actuarial survey is necessary to show the amount of reserve necessary each year to finance satisfactorily such a plan in cooperation with the employees, and proper computations can be made only when the age, pay and length of service of the employees of a particular organization are known. From an examination of the personnel data of a great many organizations, including a number of banks which have a long corporate history, it is fairly safe to say that the plan just outlined could be financed, insofar as future service is concerned, if the bank established a reserve each year of approximately 3 to 3½ per cent of payroll. Of course, this is in addition to the contributions of the employees.

Additional amounts would be necessary over a period of years to liquidate gradually the accumulated deficit representing past service credits. The amount of this annual instalment would depend to a large extent on the ages and salaries of those employees having long periods of service. In the average bank or trust company, an appropriation of approximately 2 to 2½ per cent of payroll, in addition to the outlay for current service, will adequately finance past service recognition.

Surcharges against Corporate

By JOHN H. BOUSHALL

Trust Officer, First National Bank, Tampa, Florida

As an aftermath of the depression there has developed an interesting situation as to corporate trustees. Beneficiaries whose estates have shrunk, due to general conditions, have sought to improve their position by undertaking to surcharge their trustees. Some of these efforts have been successful, and some have proved that such burdens cannot be shifted.

In the cases where the trustees have been successfully surcharged, there emerges a series of channel markers which it is well enough for us to observe. That such things could never overtake one of us is too much of a holier-than-thou attitude to assume, for many of the officers whose companies were surcharged thought their courses of action were right, at the time. In the bright glare of "hindsight," expediency has some times been designated as dishonesty, some times as lack of judgment, and some times apparently an inevitable "concatenation of concurrent circumstances."

The Securities Act of 1933 expressed a feeling of resentment that had grown up toward cases where, whether with merit or not, it had been felt that the good of affiliated companies or special concessions to the corporate bond department were warping judgment. In 99 per cent of the cases where the same or equivalent securities would have been bought regardless of whether the affiliate or another department of the bank had them for sale, the 1 per cent that did yield to the temptation brought down the drastic action of Congress as well as the wrath of the courts. "It cannot be too strongly stated that a bank named as trustee prostitutes its trust when it uses it as a feeder for promotional or speculative business; that it is a public and a private wrong for it to invest money left with it in trust in securities in which it is interested by way of commission, promotion or profit." (First National Bank v. Solomon, 63 Fed (2d), 900, decided March 24, 1933.) "A trustee has no right to act in the double capacity of broker or purchaser, to sell alleged securities at a profit to trust estates of which it is trustee, or to unload upon such trust estates worthless securities. These methods of plundering the estates of dead men cannot receive the approval and commendation of this court." (Kelsey v. Detroit Trust Co. 251 N. W. (Mich.) 555, quoted in American Bankers Association Journal of May 1934.)

There is a brighter side to the picture. The courts have been very responsive to the situation where some beneficiary has sought to overlook every effort on the part of the trustee to be fair and right, and surcharge it for some matter for which it in no manner could have been responsible. Judges are not willing to give effect to a charge aimed with "hindsight" when the trustee was

The attitude of the courts seems to be based on two fundamental principles. One of these is that a trustee must not profit by his trust; and the other that a corporate trustee, having held itself out as especially qualified to assume and discharge the duties of a trustee, is charged with a standard of efficiency higher than that of the ordinary prudent man handling the funds of another. The courts have quite readily come to the aid of a trustee who was sought to be surcharged simply because hindsight is better than foresight. Where the trustee has throughout acted in good faith, with those reasonable precautions expected of one whose business it is to

Hindsight—bond yields

Trustees

As we emerge from the depression, as new faith is built in our banks and trust companies in their fiduciary relationships, corporate trustees can well resolve that whenever a beneficiary deems it necessary to call his trustee to the bar of justice the court will always be able to say that the trustee has acted in the best of faith, and to end its opinion with the statement, "And the trustee will not be surcharged."

doing everything in its power to find out and to do the right thing.

Judge Fred G. Rush, of the Circuit Court of Cook County, Illinois, says in the case, Matter of Estate of Leonard A. Busby, decided June 5, 1934, "It would have been better to sell at once, we all now know, as a matter of history, but is the executor, in fact acting for the most part through . . . its president . . . after using his best judgment, and after the bank's using its best judgment, to be found guilty of negligence, and to be surcharged with some vague sum for not selling at some vague point of time, because the evidence shows as a matter of history that it would have been better to have sold as soon as letters were obtained? Such a holding would not fit any man's sense of justice. This court finds that the executor was friendly, faithful, competent, and used its best judgment in liquidating the estate, and is and was not guilty of negligence." (Quoted in Trust Companies Magazine, June 1934.) The First National Bank of Chicago, the executor referred to, is justly to be commended that it holds the banner of trust management so high that the court is pleased to defend it thus sincerely.

In a case arising from New Jersey, Harris vs. Guarantee Trust Co., decided April 17, 1934, quoted in Trust Companies Magazine, July 1934, it is stated: "A trustee, who, within the scope of his powers, acts in good faith, prudently, carefully, diligently, discharges the obligations of his trust; he is not responsible for errors of judgment. (Citing quite a number of New Jersey equity cases.)" The bill was dismissed.

The courts and corporate trustees have thus reached a common ground of understanding. Where a trustee has been guilty of bad faith it may expect retribution, but when there appears in the conduct of the trustee an intelligent and honest effort to conduct the trust to the best of its ability, then the judges readily come to the trustee's aid.

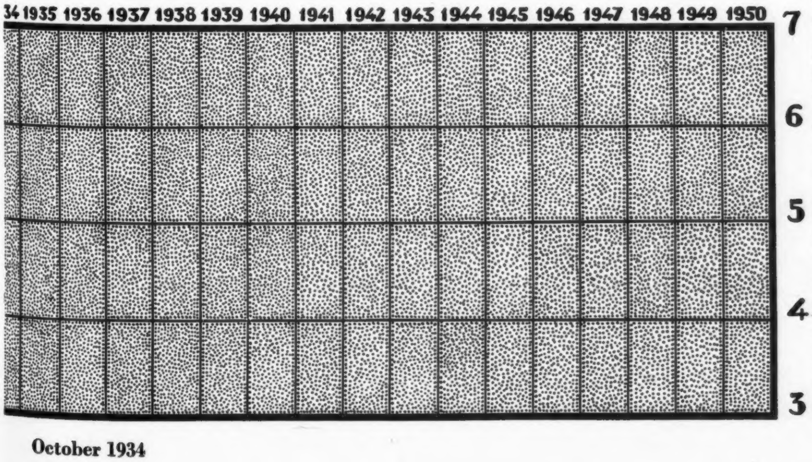
It is well for corporate trustees especially to turn back often to the pure springs of fair dealing and to wash all film from their vision. Things have come to light since 1929 that shock the conscience of everybody, and yet the people concerned were such that all knew they knew better. Then what was the trouble? In the frenzy of apparent opportunity to make money quickly, the real relationships were forgotten, the clarity of the vision was so blurred that the clear lines between *meum* and *tuum* that must mark all trusteeships did not appear. Suddenly when the shouting and the tumult ceased, those who had confused the ideals of trusteeship were broken, and the public was shocked into a questioning of corporate trusteeship that has done the business no good.

handle and care for trusts, the courts refuse to unload on the corporate trustee the losses the trust has suffered.

Just where the line of demarcation comes is sometimes hard to determine. Good faith may be coupled with such bad judgment as to effect a liability, because the trustee ought to have known better. And there are those cases where the trustor has made certain stipulations the observance of which at the moment seemed trivial, but in the last analysis were conditions which he imposed and which he was entitled to have respected.

—The Author

Foresight—Trusteeship is concerned with the future



Margin Requirements

OCTOBER 1 is the date upon which the margin requirements of the Securities Exchange Act of 1934 become effective. This makes timely the following extract from a letter of Chester Morrill, secretary of the Federal Reserve Board, to the Federal Reserve agents:

"In so far as banks are concerned, the Federal Reserve Board's authority under this act relates to loans made for the purpose of purchasing or carrying securities registered on national securities exchanges.

"It does not apply, therefore, to loans made solely for industrial, agricultural, or commercial purposes, regardless of the question whether these loans are secured or unsecured, and, if secured, regardless of the character of the collateral. The determining factor is the purpose of the loan and not the nature of the security offered. If a loan is collateraled by stocks or other equity securities and is made for the purpose of purchasing or carrying securities registered on a national securities exchange, it comes under this section of the act; if it is made for any other purpose, then it is exempt.

"The Board's power under this section, furthermore, does not apply to loans on exempted securities, which are defined by the law as including among other securities obligations of the United States, or of any State or political subdivision, and such other securities as the Securities and Exchange Commission may declare to be exempted securities.

"The power of the Board is further limited by exempting bank loans on securities other than equity securities, which means in practice that it is not applicable to loans on bonds, except bonds such as those having conversion privileges, and there are certain other exemptions.

"In general, the law, in so far as it applies to control over banks, is intended to prevent the banks from being used for the purpose of circumventing the margin requirements prescribed for loans extended by brokers to their customers, and to prevent undue expansion of bank credit employed in the securities markets.

"General banking practices in relation to loans for industrial, agricultural. or commercial purposes are not affected by this Act."

1863 1st 1934

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The First National Bank of Chicago

Charter Number Eight

Steel Production

Steel production has hovered around 20 per cent of capacity, marking a slight rise from late August records. Prospects are considered very uncertain, although it is noted that consumption has been larger than output for some six weeks or more, with the result that stocks have been drawn upon and replacements will soon be necessary. In seeking the latter it is noted in the trade that buyers, now protected under the code against any increase in maximum prices for the last quarter of the year, are attempting to secure price concessions, and prices now seem to be the determining factor in whatever upturn is to be realized.

A View of British Trade

FOREIGN affairs and home conditions in Great Britain "have conspired to check the upward trend of employment" there and to render the outlook "more obscure than for some time," says the quarterly survey of the Midland Bank of London.

"In brief, unsettlement abroad, translated into sluggish export trade—which, however, has shown in the aggregate some slight expansion—and the weather at home are mainly responsible for the recent check to the improvement in business," the bank reports. "It is, nevertheless, disappointing that these influences have not been fully offset by continuance of the basic upward trend in the home market. It was not to be expected that the expansion in the home market would maintain the rate recorded in the preceding year or so, since that recovery was due in part to restocking, which can take place only once; but it might have been anticipated that, with rising prospects for readier consumption of output, capital development would have continued to expand in volume. . . . While there is no good reason to anticipate an early and substantial shrinkage in the volume of business as a whole, the immediate signs of further expansion are not conspicuously hopeful.

"Notwithstanding this expression of modified expectation, we cannot agree with the statement of the President of the Board of Trade, made without supporting evidence, that 'there are signs that the home market is nearing saturation point'. So long as well over two million people are still lacking the income of labour, to be spent on additional consumption, a statement like this calls for exposition of its basic assumptions. Mr. Runciman's succeeding statement—that the home market 'cannot be expanded without unduly endangering our export trade beyond certain limits'—can hardly be accepted as an explanation. One of the first effects of increased output in industry is a lowering of overhead charges per unit, which is calculated to increase our competitive power in export trade. If, on the other hand, the subject in mind was the effect of increased home activity on our expenditure on imports, there is on this account, as we pointed out a month ago, not the slightest need for anxiety. On the contrary, increased imports, even to the very point of entrenching on the nominal amount of our capital abroad, would give us a larger physical and financial return on that capital and, by improving the position of debtor countries, increase its real value.

"If, then, there is no obstacle in our overseas trade position to increased activity in the home market, it follows that every effort should be made to exploit the possibilities of further expansion there. To this end the stimulus of cheap and abundant money supplies should be applied strongly and continuously."

Bank deposits, says the review, are well below the level of a year ago, "for no other reason than that the Government has seen fit to reduce, by funding operations, the quantity of bills outstanding." Money rates are still low in Great Britain, and the British money market has a plethora of funds.

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MARYLAND CASUALTY COMPANY Baltimore

SILLIMAN EVANS - President • F. HIGHLANDS BURNS - Chairman of the Board

A Recovery Sign Post

THE Reconstruction Finance Corporation hopes to complete its program of buying preferred stock in financial institutions before the end of the year, said Chairman Jesse H. Jones in a recent address to the National Business Conference at Babson Park, Massachusetts.

A few banks scattered throughout the country, Mr. Jones said, still needed additional capital. It was the Corporation's desire that every bank in the United States be a strong bank, and the R.F.C. will "help make them so if bank stockholders and local interests will cooperate with us."

"The ownership of this stock by the Government carries with it great responsibility," asserted the speaker, "and must be administered with care and consideration for local interests—the common stockholder. Prospective borrowers must not expect Washington to influence the bank management in making loans. . . .

"While there is no disposition to dictate bank management, we have in some instances insisted that the management be strengthened, leaving the directors free, however, to select the new officers, sometimes with our approval. That should continue to be the policy of the R.F.C., except in cases of mismanagement or abuse of trust."

Mr. Jones expressed himself in favor of changes in bank supervision, suggesting "fewer examinations and stricter requirements for maintenance of sound capital in a greater proportion to deposit liabilities."

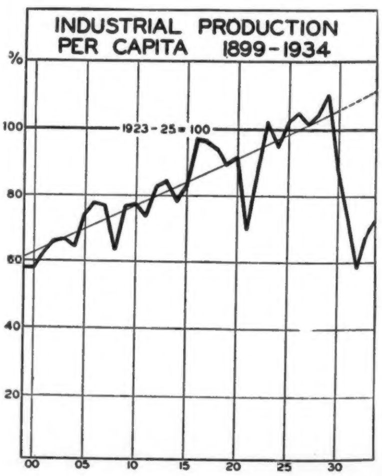
He also urged bank stockholders to take a more active interest in the management of their banks.

"The owner of a business is usually the best manager for it, and while in large banks, as in other corporations with widely scattered stock, that is not always possible, it nevertheless remains true that if the management is directly interested in the profits to stockholders, a maximum of returns may be expected."

Seventy-five per cent of the loans aggregating $1,126,000,000 which the R.F.C. advanced to more than 5,500 banks has been repaid, Mr. Jones reported, and the greater part of the balance is owed by 670 banks that closed after receiving loans.

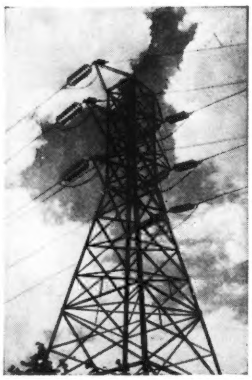
The chairman hoped the time was not "too far distant" when most of the Government's lending could be discontinued.

From the Cleveland Trust *Bulletin*



Draining the Lifeblood *of* a Great Industry

PROMINENTLY DISPLAYED *on a wall in the* ELECTRICAL BUILDING *at the* CENTURY OF PROGRESS in Chicago *is the following statement:*



***EDISON** and other men of genius made electric service possible. Men of vision and enterprise developed the electrical supply industry until it serves us at lower cost than slaves could do the work.*

***CONFISCATORY** regulation, excessive taxation, and unfair competition, which threaten the unrestricted use of this service, would be disastrous to the investments of the multitude whose hard-earned substance is the lifeblood of the industry.*

SUCH threats to the savings of utility investors demonstrate the wisdom of the Associated Gas and Electric Company's Plan of Rearrangement of Debt Capitalization for the protection of the interests of Associated security holders.

ASSOCIATED GAS & ELECTRIC SYSTEM

61 Broadway, New York

Mortgage Bankers

THE program for the 21st annual convention of the Mortgage Bankers Association of America, to be held at the Edgewater Beach Hotel, Chicago, on October 4 and 5, terms the gathering "the most significant mortgage banking event in two decades."

Activity of the United States in the mortgage field is one of the important subjects for discussion; it will be a prominent topic at the concluding general session.

Three representatives of the national Administration appear on the program. Henry A. Wallace, Secretary of Agriculture, is to address the morning meeting on October 4, while that afternoon John H. Fahey, chairman of the Federal Home Loan Bank Board, Washington, is scheduled to speak on the Board's policy toward private home lending. Frank C. Walker, chairman of the National Emergency Council, Washington, will discuss "The National Housing Program" at the morning session on October 5.

Group discussions on subjects related to mortgage banking will be held both afternoons.

W. Walter Williams, president of Continental, Inc., Seattle, Washington, is president of the Association.

Mortgage Institutions In F. H. A. Plan

FINANCIAL institutions which are legally required to lend only against the security of a mortgage have been admitted to active participation in the Federal Housing Administration's home modernization credit plan.

Savings banks, building and loan associations, insurance companies and other financial institutions are invited to join state and national banks and finance companies in making loans under the National Housing Act.

"All financial institutions may take mortgage security," the F. H. A. announced, "although it is intended that credit shall be extended as nearly as possible on an unsecured basis as state laws allow. The mortgage is relegated from its place as principal security to one of security in legal form only, so as to permit mortgage institutions to proceed as if these loans were unsecured, and yet meet the requirements of the laws in their states.

"The mortgage institutions would be more interested, under this plan, in the property-owners' income than in his property."

Decentralization

The decentralization of industry, sought by some of the authorities in Washington and represented in the present program by such schemes as the subsistence homesteads enterprise, is opposed by other authorities of the Government because they have found or think they have found that some of the industries willing to migrate from city to country base their complaisance upon a desire to get out from under N.R.A. wage codes for metropolitan districts. That, of course, would be highly reprehensible. Incidentally, workers may be better off in the country at lower wages than they are in the city at higher wages.

IT is the constant purpose of this bank to transform an otherwise routine business connection into a mutually profitable and pleasant relationship.

CONTINENTAL ILLINOIS
NATIONAL BANK
AND TRUST COMPANY
of CHICAGO

Financial Advertisers

ADVERTISING is the only sales power that can do "an economical job in fighting along the entire front of indirect competition," said I. I. Sperling of Cleveland, new president of the Financial Advertisers Association, in his inaugural address at the Buffalo convention. Mr. Sperling is assistant vice president of the Cleveland Trust Company.

Mr. Sperling deplored a tendency of bankers to restrict advertising for fear of drawing attention to their institutions. While it takes "superior advertising intelligence" to capitalize such intangibles as service, convenience and courtesy, the speaker said that "if advertising were useless in such cases, then all insurance companies, all common carriers and all public utilities would have found advertising unnecessary and unprofitable.

"By fair, intelligent, courteous treatment of their customers, by frankness with the public and by adequate service," he asserted, "banks can build loyal followings which will refuse to believe that any bureaucratic control could possibly equal the service and the helpfulness now rendered by the politically free, efficiently and honestly managed, privately owned institutions.

"It is not only self-interest but in the interest of banking as a whole and of the American people as a whole, that full confidence in deserving institutions be restored; that slander and libel be counteracted; that truth, integrity, honesty and unwavering trusteeship be again given the earned confidence they have enjoyed for a period of more than three generations."

Mr. Sperling, who succeeded Alva G. Maxwell of the Citizens' and Southern National Bank, Atlanta, as Association president, has been with the Cleveland Trust Company in a publicity and public relations capacity since 1919. He is chairman of the public relations committee of the Cleveland Clearing House Association.

Other officers elected by the advertisers were:

Robert W. Sparks, Bowery Savings Bank, New York, first vice-president; Thomas J. Kiphart, First Third Union Trust Company, Cincinnati, second vice-president; William H. Neal, Wachovia Bank and Trust Company, Winston-Salem, North Carolina, third vice-president; Fred W. Mathison, National Security Bank, Chicago, treasurer.

I. I. Sperling

· FOR THE FULL PROTECTION ·
· AND EFFICIENT WRITING OF ·
· NEGOTIABLE INSTRUMENTS ·
· THE MODEL 33 PROTECTOGRAPH ·

70% FASTER • MORE ACCURATE • SAFER

• • • • *UNIFORMLY LEGIBLE AND SAFE AMOUNT LINES AT ALL TIMES*

Bankers and business men are buying Model 33 on sight. They have heard about this remarkable new Protectograph. They like its looks. It works so swiftly and accurately. It is so sure and dependable. Ask the Todd man to demonstrate

SALES AND SERVICE

Factory owned and controlled sales and service offices in all principal cities. Write or telephone The Todd Sales Company in your city or write us direct

THE TODD COMPANY, Inc. ROCHESTER, NEW YORK

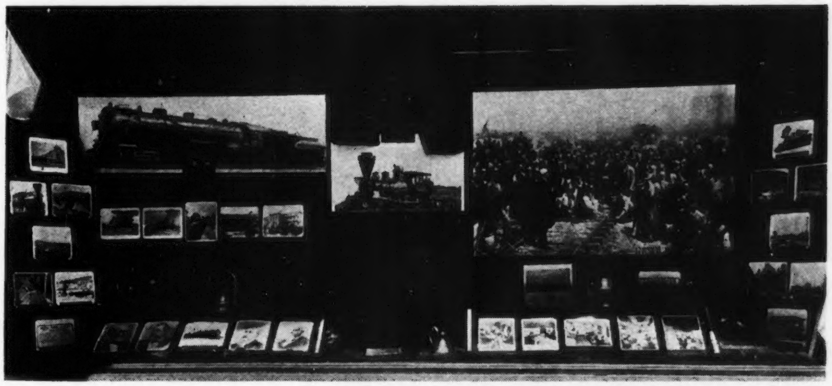
The Protectograph • Check Signers • Greenbac Checks • Super-Safety Checks
Bank Books and Check Book Covers • Stationery and Bank Supplies

Bank Window Displays

By JOHN B. MATTHEW

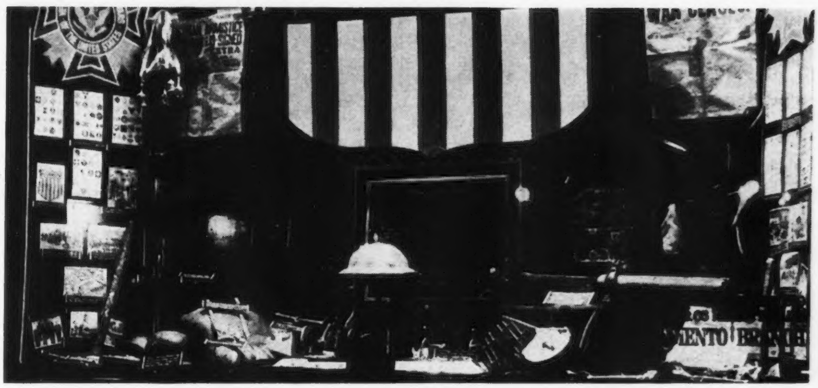
THE pictures on this page illustrate four of the many window displays originated by Mr. Matthew for banks. Many banks in large cities and small towns have found that reaching the public through the medium of interesting window displays is both creative of good will and effective in public education

A COLLECTION of money (above) always draws attention. In almost any town, old money and foreign coins are available for display purposes. Old-time styles (left) are interesting and can be linked to copy about the bank's age, current events and so forth



THE industries of a community, or historical events related to business can be used to advantage for advertising purposes. At the left is a window display of pictures on railroading, with lanterns and other train paraphernalia to add color

HOLIDAYS suggest window arrangements. At the right is an Armistice Day window, with steel helmets, a machine gun, newspaper front pages and numerous other World War relics. Like the other windows above, holiday displays can be made from materials easily accessible anywhere



The Protection

SOMEONE has said that the most interesting subjects in the English language are, first, "I", second, "you", and, far behind these, "the rest". Perhaps that accounts for the unusual interest in wills. No other documents disclose men's true selves as wills do. In their pages we find humor and pathos, love and hatred, foresight and the lack of it, miserliness and generosity—all of man's dominant characteristics.

But to the student of wills the most outstanding source of wonder is the utter carelessness of so many people in disposing of the estates that it has taken them a lifetime to accumulate—the apparent disregard of the future of those nearest them. Why is it that men, scrupulously careful about business affairs, whose whole lives have been devoted to the interests of their families, insist on jeopardizing the future of their loved ones and invite the frustration of their most cherished plans? Fundamentally, no other ambition is so deep-seated in man as the desire to protect his wife and children.

Of course, there are reasons for this apparent carelessness. A man can visualize a friend's dying, but it is difficult for him to visualize his own death. If men could, like David Warfield's immortal Peter Grimm, return and witness the results of their carelessness, there would be more and better wills written.

Again there is the old superstition that the writing of a will presages an early death. It is easy to understand that a person, ill, perhaps, or seriously injured, is hardly in the proper frame of mind to exercise calm, unbiased judgment on the important matter of disposing of all his wordly goods. John J. McGraw, baseball celebrity, made such a will. So, also, did Mrs. Thomas Hitchcock, Sr., famed sportswoman and social leader. McGraw's will, disposing of a substantial estate, was typed on a sheet of hospital stationery. The signature was an illegible scrawl written over the typed part of the will. Mrs. Hitchcock was so seriously injured as a result of a fall from her horse that she was unable to affix her signature to a will drawn up shortly before her death. Therefore the will filed for probate had an "X" to represent her name.

VALUE OF LEGAL SERVICE

A THIRD reason is the layman's unfamiliarity with the law and his sometimes unjustified fear that the lawyer's fees will amount to a major operation on his pocket book.

The process of planning a will is not a complicated task—certainly no more so than the preparation of the income tax return that must be made annually or the planning of a life insurance program. As for the lawyer, who by all means should be entrusted to put the plans into legal form, there is no reason why he should not be willing to state frankly how much his fee for preparing the document will be. It will, of course, vary with his ability and reputation and perhaps with the size of the estate involved; but if he is a man skilled in that part of the law dealing with estates—and that does not include every lawyer—his service will probably be worth whatever it costs. And, in all probability, the fee will be entirely reasonable.

Where's that SIREN Going?

When you hear a fire truck's siren screaming, its bell clanging up the street, do you wonder where that siren's going? Do you ever think, "Perhaps he owes us money. Let's hope he's well insured!"

"Well insured" means much more than just having a couple of polices. Have the companies reputations for fair dealing? **Do you even know what companies cover these risks that are your risks?** Do the policies cover concurrently? Are their conditions complied with? Do they give **complete** coverage—against riot, windstorm, sprinkler leakage, earthquake, as well as fire?—and do they cover income and profits as well as capital investment?

Before a siren screams again you'd better check these things. Call in your agent or broker for a consultation. To play safe (and what good, indeed, is insurance if it isn't safe?) specify

The
LONDON ASSURANCE CO.
The
MANHATTAN
Fire and Marine Insurance Company
The
UNION FIRE,
Accident and General Insurance Company
99 JOHN STREET, NEW YORK

Write for the names of our agents in any community.

Afforded by Wills

BY ALBERT JOURNEAY

Vice-president, Purse Company, Chicago

THE changing conditions of today make the careful preparation of a modern will more important than it has ever been. One cannot read the daily papers without finding examples of the dangers that lurk in an old will or in one poorly prepared or in the failure to make a will. Before me are many newspaper clippings that have appeared within the past few months. One is headed "Fifty Cousins May Claim Iowan's Estate". It tells how 50 or more second cousins may claim the $100,000 estate left by Wilbur Staton, Iowa farmer who died without leaving a will.

Another from the Detroit *Free Press* is headed "General Motors Official's Will Accepted by Court." Here the testator undoubtedly intended that his widow should receive his $385,000 estate but made no provision for her in the will. Fortunately, the children recognized his intent and signed waivers giving their mother the estate as their father intended.

INTESTACY

A RECENT investigation in a certain state showed how common an occurrence it is for people to die without leaving a will. This investigation showed that 7 per cent of the estates probated in that state since 1928 contained assets of $25,000 or more. There were 500 in this classification examined. Seventy-two, or 15 per cent, of the group died intestate, that is, without a will. Since people with larger estates ordinarily are better advised and give their capital better care than those who have not accumulated as much, it is safe to assume that the percentage of intestacy increases in the lower brackets of wealth.

The law provides a cut-and-dried method for partitioning the property of those who die without a will. It provides for an arbitrary dispersion of assets. This law is intended to fit the average man, and since few men are "average," the result is usually as unsatisfactory as if in time of war a government figured the average physical measurements of its millions of soldiers and ordered all uniforms cut to fit that average form.

Where the right to nominate a successor has been neglected, the court must appoint one, called an administrator.

Then, too, failure to make a will is the most expensive means of passing an estate from generation to generation, for it precludes every opportunity to minimize estate shrinkage.

It makes it necessary to divide the estate according to the hard and fast law laid down by some bygone legislature and to distribute it as quickly as possible. In many cases it might be far better to hold certain elements together. It often throws capital into hands untrained to manage it, and capital flows easily through untrained hands.

In one case arising out of the failure of a prominent man to leave a will, when the question of the rightful beneficiaries came to be considered there were, in the words of the last United States judge who passed upon it, "seven sets of alleged heirs making claim to the estate. Their claims gave decedent six different mothers, five of the different groups of heirs claiming the late millionaire to have been an illegitimate child."

Concrete Improvements

outlive loans

.... last a lifetime

UNDER the new Home Loan plan, many loans will run for 15 years. And many a home improvement, made in good faith, will require extensive repairing or complete rebuilding in that time *—unless it's made with concrete.*

Whether you are planning to build a driveway, sidewalk, porch or additional rooms, build with concrete. Then you can be sure that the improvement will be permanent—that it will far outlive the loan and require the absolute minimum of maintenance.

"Concrete Improvements Around the Home" contains scores of valuable suggestions. The coupon will bring your copy.

PORTLAND CEMENT ASSOCIATION
Room 1410, 33 West Grand Ave., Chicago, Ill.
Gentlemen: Please send me free copy of your booklet "Concrete Improvements Around the Home."

Name ....

Address ....

City.......................... *State*............

MINUTES

(CONTINUED FROM PAGE 9)

but it is curious and significant how quickly and easily adjustments are made. The preliminary schedule for silver certificate issues provided for approximately $12,000,000 a month for August, September and October. It happens that since March the circulation of national bank notes has dropped on an average of $10,500,000 a month.

Doubtless the latter is due to the approach of the three years limit on the expanded issue of national bank notes set for next July 22, under the terms of the amendment to the Home Loan Bank Act which provided for this "mild form of inflation" as Senator Carter Glass characterized it. In actual fact it is doubtful that this liberalized provision for banknote currency increased the monetary circulation of the country in the least material way.

National bank notes merely supplanted Federal Reserve notes. The country will use only the amount of currency it needs. Shifts in the character of that circulation have little or no effect upon the amount of money required.

Capital

It is quite possible, as many financiers maintain, that a more liberal policy with respect to the flotation of new capital issues on the money markets would result in no more new financing at the present time than is now being realized, but it is at least certain that new capital issues can be encouraged in no other way than by a liberal policy. Whether or not they are used at present, money channels must be kept open if a flow of capital is to result.

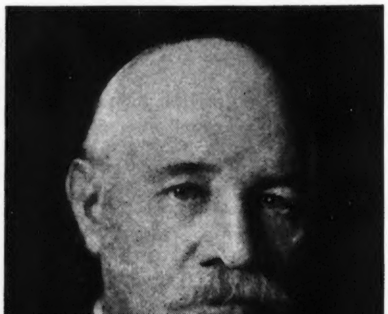
*

Reserves

The Federal Reserve authorities, including the former Governor of the Federal Reserve Board, are still studying the matter of member bank reserves with the idea of asking Congress to adopt their plan of fixing reserves on the basis of the velocity of deposits. It is probable that in time some such plan will be adopted. The amount of unused money in member banks at the present time, however, is so great that even if the velocity of deposits reached a turnover of 40 times a year, as was the case in 1929, the proposed plan would still leave something like half a billion dollars of excess reserves in the System.

The logical implication of this fact is that to control credit in boom times the Reserve banks must be given power to increase radically the ratio of required reserves under present conditions or under conditions such as they will be when the gold "profit" is run into the nation's money and credit stocks.

The Senate Banking and Currency Committee, of which Senator Fletcher is chairman, in the fourth section of its report characterized the country's present banking organization as "archaic"



S. & T.

Covering CANADA

AND KNOWING CONDITIONS

Throughout the Dominion, the Bank of Montreal operates through more than 550 branches, each of which is in close contact with the community it serves. ℭ To American business men, financially interested in Canada, the bank thus provides not only an unexcelled banking service, but a source of valuable information. ℭ Enquiries are welcomed by the Business Development Department at the Head Office in Montreal.

BANK OF MONTREAL

Established 1817

NEW YORK AGENCY — 64 Wall Street
CHICAGO OFFICE — 27 South La Salle Street
SAN FRANCISCO OFFICE — (Bank of Montreal, San Francisco) 333 California Street

Assets over $700,000,000

Head Office *Montreal*

Collection Charges

To the Editor of BANKING:

THE writer's experience in sending checks to non-par points has been expensive due to the varied rates of exchange charged. These rates of exchange varied from 10 cents to 25 cents per $100 of items sent for collection. Some banks would deduct the Government tax and postage, while others would absorb these extra charges. It was almost impossible for the banker who accepted the items for collection to make a profit and in some cases avoid a loss. The fee should, of course, revert back to the customer, and the bank receiving the items for collection should make a profit in the form of exchange charge.

In the case used here, a customer left two checks with a bank for collection. The amounts of the two checks, drawn on different banks, were $1 and $100. When returns on the smaller check were received the net proceeds were 73 cents and after deducting 10 cents for handling, this customer received 63 cents for the $1 check. The $100 check netted the customer $99.80, a deduction of only 20 cents for exchange charge, which included 10 cents for the collecting bank and 10 cents for the bank who accepted the item from the customer. It was no easy matter to explain to this customer why he was charged two rates of exchange on these two checks. There is always the chance that customers will not understand this difference in exchange charge and it may result in the loss of a good account. To the writer this varied rate of exchange used by banks seems unfair both to the customer and the banker.

In other lines of legitimate business the wholesaler has a price to the retailer, who in turn has another price to the customer insuring a profit for both. It seems to the writer that this relation should exist between banks to make possible a small profit to both the bank which receives the item for collection from the customer, and also the bank which makes the actual presentation and remittance of the item. It seems only natural that banks must have an exchange rate which will cover the float charge when immediate credit is given for a check or draft to the customer's account, but they should also have an exchange charge to cover collection items where credit is not given until actual payment is received.

Not only is there a difference in the exchange rates of banks on collections but the price of New York, Chicago, St. Louis and other drafts issued over the counter to customers. A uniform rate of exchange for bank drafts purchased over the counter, properly advertised, should increase the sale of this paper and bring more profits to the bank. Much business is now handled in the Post Office Department in the form of postal money orders that should be coming into the banks because the public has not been advised and encouraged to purchase drafts from banks. American Express Company money orders are examples of what can be done with a uniform exchange rate.

GEORGE R. SMITH,
Assistant Cashier,
Commercial National Bank
Demopolis, Alabama

DEPENDABLE
INSURANCE
SINCE
1863

EXTRA STRENGTH is necessary in the foundations and structure of the lighthouse if it is to withstand the onslaughts of storm and tempest.

In like manner the companies behind your insurance should possess the reserve strength necessary to meet the stress and strain of panic and disaster.

FIREMAN'S FUND INSURANCE COMPANY has weathered every economic storm and conflagration since the Civil War, paying out over $220,000,000 in claims.

Today it heads a group of California insurance companies whose names stand for STRENGTH, PERMANENCE and STABILITY throughout the nation. Each has ample reserves to meet all contingencies. Each has assets practically twice its liabilities.

When you buy insurance make sure you get security. A policy in a company of the *FIREMAN'S FUND GROUP* is one source of strength you can always depend upon.

Agents Everywhere

Fire · Automobile · Marine · Casualty · Fidelity · Surety

FIREMAN'S FUND GROUP

Fireman's Fund Insurance Company — Occidental Insurance Company
Home Fire & Marine Insurance Company
Fireman's Fund Indemnity Company — Occidental Indemnity Company

HEAD OFFICE · SAN FRANCISCO

Offices in the Principal Cities of the United States and Canada

Where Business and Banking Meet

. . .

MISSISSIPPI VALLEY TRUST COMPANY

ST. LOUIS

Treasury Financing

AN INTERESTING feature of the response to the Treasury's September financing was the rather marked preference which holders of the called Fourth Liberties showed for the shorter term issue offered in exchange by the Government. Roughly two-thirds of the Liberty owners were believed to be banks.

The refunding involved about $1,250,000,000 of the Liberty Bonds. Holders received the option of taking either four year Treasury notes, bearing 2½ per cent interest, or 3¼ per cent Treasury bonds maturing in twelve years and callable in ten. A month's interest bonus was allowed, presumably to stimulate the exchange.

In addition, a maturity of $524,748,500 in Treasury certificates of indebtedness was cared for by offering, also on an exchange basis, an issue of 1½ per cent two year notes. This operation left the $992,000,000 certificate issue maturing December 15 as the only other short-term issue of that type outstanding.

Books on the certificate refunding were closed two days before the securities matured, but a longer time was allowed for the exchange of the Liberties. The entire program was an exchange operation only, no cash subscriptions being accepted.

A New Source of Credit Information

To the Editor of BANKING:

HOW very many times do we overlook savings merely because they are indirect and not absolutely apparent? Business firms and even banks have this same fault.

Let us take the case of many banks. Who in those banks have better chances to investigate customers who are possible seekers of credit than the tellers who come into contact with these very customers every day? The tellers can soon tell whether or not a person is businesslike and systematic, careful or careless, above reproach or of questionable character. The tellers can find what others think of these customers by chatting with the bearers of checks signed by them. They can find with what type of business associates these potential borrowers deal by examining the checks deposited by them. The discoveries of a teller who is wide awake and on the lookout are many and of great value—if used.

Banks, however, never ask the opinion of these tellers who have such a supply of useful information at their disposal. They get information from all possible sources except the one nearest them and for which they are paying. As the boy who went in search of the golden windows far away only to find that they really existed at home, so some day banks will discover a supply of credit information at their finger-tips. Is not the utilization of this unused asset a most important possible saving?

DANA V. HUMPHREY

34 Broad Street,
Lynn, Mass.

The Average Man

NOTWITHSTANDING the changes which five years of economic readjustment has brought, the average man still holds substantial property investments, says a survey of life insurance and savings bank holdings by Frazier Jelke & Company.

Of more than 93,000,000 life insurance policies in force with 44 principal companies, the average face value is approximately $1,100. It is estimated, the survey asserts, that about 65,000,000 persons carry insurance supported by admitted assets of $18,227,686,544. The insured person is essentially a capitalist.

Each of 13,686,947 savings bank depositors had an average of about $700 on deposit July 1, 1934, total deposits amounting to $9,720,377,072. New York State's 138 mutual savings banks hold real estate mortgages to the extent of $3,562,095,000 in addition to $1,853,702,000 in bonds of Governmental divisions and corporations.

"Policyholders and savings bank depositors," continues the survey, "have been educated to believe they may withdraw their savings in cash at any time. For this reason they seldom are conscious that their funds are not held in cash, but in fact are invested to earn the interest allowed at regular intervals. They are not likely to realize how political policies and economic conditions may influence the value of the resources in which their savings are invested, or the credit standing of those who have borrowed indirectly from them.

"The average citizen who understands how closely security is linked with the welfare of mutual financial institutions has ample cause for demanding assurances of protection for reasonable property rights, and he should know that his elective representatives in Federal, state and municipal assemblies have the power to re-establish confidence.

"Prosperity neither seeps down through the social structure from above, nor rises to the capitalist from the average man below. Simultaneously, it moves in or out of the whole warp and woof of the economic fabric. The possessors of great wealth cannot be harassed without injuring the average man. There is no clash of interest. In the last analysis, what helps the capitalist helps the average man."

Today... as since 1889... this bank stands pledged to individual service

FOLLOWING A precedent established by the founders, The Northern Trust Company continues to encourage close contacts with customers. Each problem brought to our attention is accorded individual treatment. Routine transactions are handled expertly and with dispatch. Such service has been found most satisfactory by out-of-town banks which have selected this institution as Chicago correspondent. Inquiries are welcome.

THE NORTHERN TRUST COMPANY

NORTHWEST CORNER LA SALLE AND MONROE STREETS
CHICAGO

The Fall Trade Map

Fall trade on the whole has started very spotty. Wholesale trade in consumers' goods, which was held back considerably in late August, showed tangible improvement early in September, particularly in textile lines in anticipation of higher prices resulting from the strike, and in food products of all sorts in anticipation of higher prices resulting from the drought and crop restriction. Mid-month reports showed brisk trade in the Richmond, Atlanta and Dallas districts in both wholesale and retail lines, while in the far Southwest and on the Pacific coast conditions in the earlier part of the month were exceptionally favorable. Chicago, Cleveland, Philadelphia and New York reported fair trade. New England and the St. Louis and Kansas City districts report definite recessions.

Dun and Bradstreet's reports average retail sales for the country as a whole in mid-September as about 10 per cent over those of a year ago—another manner of stating that the actual turnover of goods was less this year than last.

Government Banking

(CONTINUED FROM PAGE 8A)

cerns are now being carried at around $55,000,000—decreased when possible and increased only by reason of previous commitments or to protect loans already made.

There has been comparatively little development of the system of banks for cooperatives. The Central Bank for Cooperatives was expected to do much heavy financing for the large cooperative selling organizations, but the operations of the A.A.A. have interfered with the plan and the amount of credit they have put out has ranged around $12,000,000 to $13,000,000 a month for some time, as compared with $17,921,311 at the height of their business last December. The banks for cooperatives in the 12 Reserve districts also have had comparatively little business, though it is increasing. The volume of credit outstanding on July 1 was $6,856,748; on August 1, $8,668,-512. The principal business of the intermediate credit banks under the new order of things is in rediscounts for the production credit associations and the regional agricultural credit corporations and other agencies designed to take over the business of the latter. Their other business seems to be in about the same volume as that of a year ago—approximately $83,000,000.

The Secretary of Agriculture, under various laws passed by Congress going back as far as 1921, had put out seed and crop loans between 1921 and 1932 in the amount of $135,185,447, to which was added another fund of $57,457,518 in 1933 before the Farm Credit Administration took over the business. Of the total of $192,642,965 thus put out, $90,-185,447 had been collected up to November 30 last. Collections have been made since that time, especially in connection with the liquidation of certain cotton loans which formed a principal part of the credit outstanding, but no recent statement of the position of the loans has been made.

In the matter of expenditures, the Public Works Administration is pressing the land and home loan banks for a close third and in the next few weeks it is likely to head the procession. Its actual expenditures in August amounted to $131,199,540, but the greater part of this outlay was for Federal projects and only $37,844,780 was put out as loans—$19,743,780 to states, municipalities and the like for construction work, and $18,101,000 in loans to railways. However, the rate of loans is rapidly increasing. In all, loans to railroads by the P.W.A. have been allotted in the amount of $199,607,800, of which only $33,039,000 had been paid out up to August 31.

RESOURCES AND LIABILITIES, ALL COMMERCIAL BANKS

As of June 30, 1934

ASSETS

	All Banks	*Reserve Members*	*Non-Members*
Loans and discounts	$15,161,145,000	$12,522,980,000	$2,638,165,000
U. S. Government and Gov't guaranteed securities	10,295,709,000	9,645,327,000	650,382,000
Obligations of states, municipalities, etc.	2,277,993,000	1,832,058,000	445,935,000
Foreign securities	334,032,000	276,867,000	57,165,000
Other securities	3,428,919,000	2,751,617,000	677,302,000
Stock in Reserve Bank	145,990,000	145,990,000	....
Total Loans and Investments	31,643,788,000	27,174,839,000	4,468,949,000
Customers' liabilities on acceptances, bill endorsements, etc.	261,841,000	257,360,000	4,481,000
Buildings and fixtures	1,208,249,000	997,817,000	210,432,000
Other real estate	424,296,000	286,348,000	137,948,000
Other assets	470,127,000	384,483,000	85,644,000
Cash in vault	621,212,000	472,643,000	148,569,000
Reserves in Reserve bank, and due from Reserve bank or U. S. Treasury	4,335,093,000	4,329,469,000	5,624,000
Due from other banks or bankers	4,408,520,000	3,481,852,000	926,668,000
Total cash and reserves	9,364,825,000	8,283,964,000	1,080,861,000
TOTAL ASSETS	$43,373,126,000	$37,384,811,000	$5,988,315,000

LIABILITIES

	All Banks	*Reserve Members*	*Non-Members*
Demand deposits	$14,874,931,000	$14,963,215,000	....
Time deposits	11,940,619,000	9,796,680,000	....
U. S. deposits and postal savings	1,784,131,000	1,657,793,000	....
Other public funds	2,406,992,000	....	....
Total general deposits	31,006,673,000	26,417,688,000	$4,588,985,000
Interbank deposits, certified checks, letters of credit, etc.	4,687,993,000	4,580,206,000	107,787,000
Restricted deposits	71,728,000	14,473,000	57,255,000
Total deposits	35,766,394,000	31,012,367,000	4,754,027,000
Capital stock, notes and debentures	3,310,564,000	2,652,182,000	658,382,000
Surplus	1,958,969,000	1,690,560,000	268,409,000
Undivided profits	469,189,000	387,925,000	81,264,000
Reserves	491,373,000	374,257,000	117,116,000
Total capital funds	6,230,095,000	5,104,924,000	1,125,171,000
Circulation	694,790,000	694,790,000	....
Bills payable and rediscounts	72,336,000	34,840,000	37,496,000
Acceptances, etc.	292,968,000	279,918,000	13,050,000
Other liabilities	316,543,000	257,972,000	58,571,000
TOTAL LIABILITIES	$43,373,126,000	$37,384,811,000	$5,988,315,000

Federal Assets

WHETHER or not the country will accept Secretary Morgenthau's statement of the position of the United States in the matter of its net public debt and the cost of the recovery program as conclusive, it will certainly recognize that there are certain off-setting assets of the Government which considerably modify the net debt position.

It is well that, for the present, the Treasury will keep under lock and key the $2,800,000,000 profit on the devaluation of the dollar as indicated by the President.

The excess of Treasury expenditures over its receipts in the last fiscal year was $3,989,496,035. It is generally referred to as the deficit in the Federal budget and is commonly regarded as that much of an addition to the public debt. So far as the direct obligations of the Government go, such an impression is correct. The Government at Washington owes that much more money.

On the other hand there is a net cash balance in the general fund of the Treasury of nearly $1,800,000,000. The ordinary working cash balance of the Government, even in these days of heavy expenditures, is around $400,000,000 so that there is $1,400,000,000 or so of cash on hand which is a proper set off to the indicated deficit. This represents money borrowed in anticipation of heavier expenditures than the Government has made.

"Some of our plans," says Secretary Morgenthau, "moved more slowly into action than had been anticipated." This money will be expended in due time, is now being expended, in fact, but in the meanwhile it is a fair off-set to the current deficit and debt increase and, after making due allowance for the usual working balance in the Treasury, the public debt on June 30 might fairly be considered as $25,653,000,000 instead of the $27,053,000,000 of obligations outstanding.

Of course the financial situation of the Government is not so clear as this bare statement would indicate. There are additional liabilities of the Treasury; there are notable assets. The Federal Land Banks, through the Federal Farm Mortgage Corporation, are issuing up to $2,000,000,000 in land bank bonds which the Government in Washington is guaranteeing, principal and interest. The home loan bank system and its subsidiary, the Home Owners' Loan Corporation, are putting out another $2,000,000,000 in bonds guaranteed, both as to principal and interest, by the Govermment.

How far these obligations should be counted as a part of the public debt of the nation is largely a matter of opinion. Certainly they represent financial responsibility on the part of the Government; certainly, also, they represent at least a certain amount of assets which their proponents and defenders claim, with much reason, are a proper set-off for the Government's financial responsibility.

Similar questions are presented in the matter of the actual expenditures of the Government during the past year and at the present time. Nevertheless the actual worth of the property of the Government is closer to its face value than has been generally believed. It is a proper set-off to much of the new indebtedness the Government is incurring in its recovery program.

The 1934 Nathan Hale

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MEMBER OF FEDERAL RESERVE SYSTEM

Creating a Bank-Spirited Public

ADVERTISING men have the opportunity "to exert a powerful influence in developing a more 'bank spirited public'," said Fred N. Shepherd, Executive Manager of the American Bankers Association, in addressing the Buffalo convention of the Financial Advertisers Association.

Outlining the work of his Association's advertising department, Mr. Shepherd explained that the aim was to help banks "to lay down a broader, sounder basis of public understanding regarding banking."

"I do not mean," he added, "that we should try to educate the public in the technicalities of banking, but we should develop among the people a knowledge of the mutual benefits accruing from properly conducted banking relationships."

With regard to the advertising services provided by the Association, Mr. Shepherd said:

"As many of you know, the Trust Division of the American Bankers Association for many years has operated a specialized advertising service for the use of trust institutions and departments. A recent report of the Division stated, however, that desirable expansion of this service was retarded by the fact that it was highly specialized and broader advertising material relating to the general field of banking, of which trust activities are a part, might be developed advantageously. In addition to this trust service the Savings Division likewise has for several years maintained a specialized savings advertising service.

"These projects are now centralized in the advertising department, charged with the responsibility of developing broader advertising activities having to do with all types of banking, under the authority and supervision of the executive officers, rather than under any particular division. This arrangement, however, leaves full discretion as to specialized advertising, such as the trust and savings services, in their respective committees. In addition, it permits an extension of the work of supplying to such banks as desire it a combined service of advertising copy and pamphlets of both general and specialized character for which it appears there is a real demand."

Suggestions for Loan Classification

DISCUSSING credit at the recent meeting in Washington of Federal bank examiners, Francis M. Law, President of the American Bankers Association, said the prevalent complaint against examiners by bankers was not in regard to the loss or doubtful columns but rather the classification of loans admitted to be good but criticized as slow.

"Let us see," he continued, "if we can agree on the following:

"First: That banks generally are super-liquid but that under present conditions it is no longer necessary or advisable for them to remain so.

"Second: That there is not enough quick commercial paper to go around.

"Third: That this country cannot, after all, be liquidated on a 90-day basis.

"Fourth: That every bank may properly have a reasonable proportion of so-called slow paper.

"Fifth: That many good banks would be starving to death but for the income received from slow paper.

"Sixth: That the banks are under terrific criticism and censure because of the fact that the volume of credit continues to shrink rather than to expand. The volume of this criticism and censure is growing daily. Many thoughtful bankers have expressed to me the view that it would be fortunate indeed if the banks of this country could devise ways and means of increasing loans within the next few days.

"The listing of slow paper is a matter about which there has been a great difference of opinion and it would seem highly desirable if a fair and broad definition of 'slow paper subject to criticism' might be agreed upon. Let us say that there are two classes of slow paper: one which should be criticized and one which should not be mentioned in the examiner's report. Let us then set up the elements entering into each class so that each may be readily identified both by the banker and by the examiner.

"It stands to reason that as long as examiners believe it to be their duty to hammer constantly on loans that are admittedly good, only because they are slow, it will have the effect not only of forcing banks to exert unnecessary pressure on such loans, but will prevent them from making new loans except those that are liquid and of short duration.

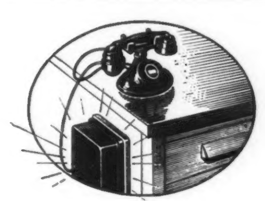
"There are undoubtedly slow loans in banks, the liquidation of which depends upon the sale of security and for which security there is no present market, and many of such loans should be classified as slow. This especially applies to real estate and mortgage loans secured by uncertain or inadequate values on property with little or no income and where the debtor has no paying ability. It also would apply in many cases to loans based on unlisted securities for which there is no present market, where the debtor has no paying ability and where the security pledged has no earning power.

"There are other loans which are plainly good and collectible over a reasonable period of time, these loans being supported by statements showing sound assets. There are many sound conforming real estate loans running naturally over a period of years secured by income-bearing property, properly margined, and these, it would seem, should not be mentioned as slow in the examiner's report, if kept in current condition."

Loans supported by unlisted securities, but which are backed by statements showing unquestionable values, and on which reasonable returns are being applied to liquidation of the debt, might well be eliminated from the slow column. The banks are and should be interested in the new direct loans to industry and in the home modernization loans; these two classes might be called slow because they are made under an extended payment plan, although they surely should not be criticized by the examiner when properly set up.

"The examiner and the banker alike must recognize the fundamental changes that have taken place in the last few years," Mr. Law stated. "We must all try to understand the trends and objectives of these changes in order to deal effectively with them."

Examiners should carefully appraise the management of banks, "for management makes the bank." The laws have been strengthened and the various departments having supervision over banks are in a position to correct abuses.



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Bell Telephone System

Studies in Banking and in Recovery

Two Important New Books Are Reviewed

Commercial Banks, 1925–33. Published by the League of Nations, 1934, and distributed by the World Peace Foundation.
Reviewed by JOHN M. CHAPMAN.

FOR a long time past there has been a genuine need for banking data of a comparative nature covering the leading commercial and industrial countries, in order to appreciate more fully the fundamental differences between the banking system of the United States and foreign systems. The task of compiling and publishing such data has been too great for individuals and for most research organizations. Fortunately, however, the League of Nations selected this phase of banking as one of its research projects and, as a result of its efforts in this direction, has added to the literature of banking some exceedingly valuable and stimulating studies.

In 1931 the League published a *Memorandum on Commercial Banks* which dealt with the banking situation in more than 25 countries for the period 1913–1929. The authors undertook to present comparative data for each country insofar as that was possible, thus making available an unusually large amount of material on banking and finance. Statistics were presented to show both the nature and scope of banking in each of the several countries included in the survey, sketching the changes which had taken place during and following the World War.

More recently the League of Nations presented another volume, *Commercial Banks, 1925–33* (World Peace Foundation, New York, 1934). Eleven new countries were included in this banking survey which supplements the earlier study. The two volumes make available to American readers for the first time much information about the banking systems of particular countries. The two books should be used jointly, since much of the data in the first volume is not repeated in the second.

Total deposits of all countries, according to this study, declined about 30 per cent from 1929 to 1933. The "velocity of bank deposits fell sharply", so that "the decline in the effective use of bank credit outstanding was greater" than the figures indicate. Investments have assumed a larger proportion of the credit extended by commercial banks, and "in most countries, not only the proportion, but also the absolute amount of securities held by commercial banks increased in this three-year period. The credit contraction was therefore largely confined to discounts and advances."

The expansion of deposits was greatest in those countries which had experienced the most severe currency depreciation. This increase took place after stabilization had been attained. During the "latter stages of inflation", according to this study, such savings as existed took the form "largely of direct hoarding of goods" and not in "bank balances". The banking systems during these periods of inflation suffered many runs, which were due more to a distrust of banks than to a distrust of the currency. In addition to the subjects referred to, this volume covers many other important topics, including banking concentration, decline of capital resources in certain countries, the rapid increase of deposit liability relative to capital, interest rates, bank profits, and other phases of banking including the underlying causes leading up to the frozen credit condition in Germany and the adoption of the "standstill agreements".

These books deserve careful consideration.

Roosevelt versus Recovery, by Ralph West Robey. Harper & Brothers, New York, 1934.
Reviewed by RAY WESTERFIELD.

THE general position taken by the author of this book on the various aspects of the "new deal" has been known by the public through his editorials in the New York *Evening Post* and more recently in the Washington *Post*, as well as through his sundry magazine writings and speeches. He has subjected the program and its execution to scathing and cynical criticism, with little, if any, sympathy for plan, performer or performance. The book conforms to this pattern of thought throughout.

With the author, as with a growing proportion of our people, the "new deal" is divided into two fairly distinct categories: first, the features aimed at recovery, and second, those making for reform—the "Roosevelt Revolution". These categories are, however, more easily demarked by the author than by most people. "As a recovery program the New Deal has consisted of monetary manipulation, government spending, the regimentation of industry, the agricultural program, the giving of government guarantees on private obligations. None of these has been a reform measure. Each one has been an attempt to hasten a return of prosperity. It is to these that one must devote his attention in appraising the positive contributions of the New Deal to recovery. The reform measures fall in a different category. They have to be appraised on a different basis. They have made no contributions to recovery." The author, therefore, sticks closely to the five features named, and dismisses all the other features of the "new deal" as not helping business, but, on the contrary, insofar as they have any effect, as hindering recovery.

"When President Roosevelt took

office there were only three courses along which our economic system could be directed," (1) a modified capitalism or a liberal capitalism, (2) communism and (3) fascism. "And since virtually the entire public was opposed to communism, it was eliminated as anything more than a theoretical possibility. The practical choice, thus, had to be between a policy designed to perpetuate capitalism by the elimination of some of the weaknesses, and a policy that while apparently designed to save capitalism, would be for the purpose of establishing, in due time, a fascist economy. . . . Fascism . . . is a combination of capitalism and communism, (although) . . . actually they are the opposite extremes of economic organizations . . . their differences (being) more fundamental" than their similarities. "The economic system that grows out of the New Deal must fall under one of these heads. The New Dealers claim that they are working strictly within the confines of the broad principles and ideals of our traditional capitalism; that there is no choice between the New Deal and the conditions before 1929 that brought the depression. In spite of this being the standard defense against all criticism of the Roosevelt program, it must not be assumed that anyone believes it is true . . . there are various possible substitutes for every single phase of the Roosevelt program."

After this preliminary statement of the "alternatives to chaos" Mr. Robey divides the people into "three great groups—wage earners, proprietors, investors", among which "there is a basic economic antagonism. Almost never does any particular policy affect all of them alike". He shows that, "in deciding upon an economic program, President Roosevelt had inevitably to favor one group at the expense of the others. Only to a limited extent could he come to the aid of all of them." The author then explores what the "new deal" has tried to do, pretended to do and actually done for these three groups severally. In attempting to do this, he assumes "for purposes of simplicity, that in each case the decision was clear-cut and that the program was formulated with a cold-blooded disregard for the effects that it might have upon anyone not falling within the class in question". While this assumption aids the author's analysis, the reviewer believes it is so untenable as to weaken many conclusions based wholly upon it; he feels that the author, too, readily forgot his premise, and failed to give due consideration to the interactions between policy and policy and between economic group and economic group. For instance, the "new dealer" believes that cheap loans to agricultural proprietors help industrial wage earners by adding to the demand for industrial products and thus creating employment for wage earners. While the reviewer does not believe that adequate exploration of these interactions would issue in opposite conclusions, the reading public will sense some unfairness in the author's ignoring them.

If the "new deal" were to be "of special benefit to wage earners the requisites would be relief for the unemployed, an increase of employment, and a permanent betterment of the conditions of labor. If the only thought was to help proprietors, the high spots would be the stalemating of the rights of creditors, raising prices, and the elimination of competition. If investors were the only consideration, the principal points would be relieving the pressure on fixed interest obligations and the restoration of a demand for long-term securities."

The "kick-off" was to resolve the acute banking collapse. Instead of eliminating insolvent institutions from the banking system resort was had to ballyhoo as a basis of confidence, to "saving" banks by moratoria and cheap and freely made loans, by authorization of overvaluation of assets, by rushing the reopening of banks regardless of solvency. The basic consideration behind this mad drive to reopen banks was the deflationary effect of freezing deposits in closed banks. The opening of banks known to be insolvent among bankers was a dangerous and temporary solution. Instead, however, of going back and really establishing a solvent banking system, by requiring the strong banks to absorb the weak and creating in this way a branch banking system like other modern countries, resort was made to the guaranty of deposits and to raising the value of bank assets by the inflation of money and credit.

The author's indictment of the inflationary program is sweeping and severe. The chapter devoted to inflation is headed "Madness". "In turning to the monetary system as a first means for raising prices, it now is clear, the administration had only vague ideas as to what should be done. The only thing upon which it apparently had any convictions was that the value of the dollar should be reduced. It tried one expedient after another. The record of these attempts to wreck the currency are without parallel in the annals of mankind. The policy as a whole has been incredible, fantastic, grotesque." The successive phases of monetary tinkering are reviewed and the inadequacy of the premises and the failure of the tinkerings are driven home, as

FOR THE COMING SESSION

Secretary Morgenthau and Undersecretary Coolidge. The Treasury is the center of banking studies for presentation to Congress next winter

KEYSTONE

well as the non-necessity of the departure from the gold standard. The Warren gold purchase program adopted on October 22 is called "the most fantastic monetary policy in modern history", and the author rejoices that since January 30 "at least the crap-shooting aspect of the program has been discontinued."

The methods of inflation in a chapter entitled "Waste" are well treated. The great theme of this and succeeding chapters is the inevitability of a terrifying inflation unless the Administration is willing to allow a complete collapse of the initial bubble. The only way the bubble can be sustained is through Government expenditures on an enlarging scale. It is merely a question of time. "The greater the spending program, the more powerful the arguments for keeping it going. It is a losing game. The harder a nation plays it, the greater become the odds against its being able to withdraw. Once a government is sucked into it on a great scale, there is no turning back except at the cost of a severe depression. Once the political fortune of a party in power becomes dependent upon maintaining a prosperity created in this way, the end is national bankruptcy unless the party is removed from office in time. It is the curse of dope, magnified a million times."

The reviewer believes that the author is doing a great public service in so forcefully urging upon the American people the powerful grip that public spending and inflation now have on our national life and presenting the meaning of it in utter nakedness.

Some facts new at least to the reviewer are given as to the origin of the N.I.R.A. General Johnson is pictured as entering the Capitol scene on an anti-inflation mission, occasioned by the Thomas amendment, and as being diverted by Professor Moley to devising and projecting the N.R.A.

The agricultural program is treated in a chapter entitled "Subterfuge". It is pictured as a gigantic hoax upon the farmer, utterly impossible of accomplishment, and, as in the case of the N.R.A., based upon the untenable principle of keeping the sub-marginal farms going and productive. The farmer's advocacy of inflation is utter folly and harmful to his proper interest.

In general, the author takes, possibly, too rugged a stand for rugged individualism; he treats the problems wholly from their economic angle, with too little compromise with social and political necessities. He waives aside too lightly the arguments of the "new dealers"; he argues from too simplified hypotheses; his general position is one of negation and hostile criticism, telling what ought not to have been done or what ought not be done and failing to tell what positive things may now be done to assuage the evils existing or coming. He is to be congratulated, however, for his vigorous effort to make the trends appear in bold relief.

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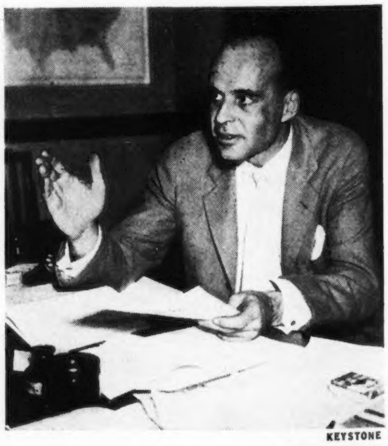

KEYSTONE

Facts About Annuities

THERE has recently been published an informative book called "What Everybody Wants to Know about Annuities". The author is G. W. Fitch; the publisher Alfred A. Knopf, New York.

The style of the book throughout is admirable. The language is simple and understandable, informal without being colloquial.

Mr. Fitch explains the different kinds of annuities, tells why they have not been as popular or as widely used in the United States as in England, makes the prophecy (supported by cogent and convincing reasoning) that annuities will from now on rapidly gain in favor and increase in use, discusses the dependability of annuities, and, finally, lays down some of the practical tests for determining from what company (not by name but by characteristics) to purchase annuities.

In two respects that cannot and should not be overlooked by a banker or trust man, the author falls into a usual but nonetheless inexcusable error—namely, that of making out the case for his own institution (the life insurance company) at the expense of other equally essential institutions (the bank and the trust institution).

In his chapter on the dependability of annuities, Mr. Fitch repeatedly makes comparisons between features of money deposited in banks and money used for the purchase of annuities, to the disadvantage of the bank deposit. Nothing was further from his thought than to disparage banks, yet from reading this chapter the lay-reader does not get a reassuring impression of banking.

Likewise, in his chapter on the last will and testament he speaks in a way that may be construed to be in disparagement of the main trust business of most trust institutions—the settlement of estates and the administration of trusts under will. For example, on page 110 he says: "By this method [the purchase of annuities] it is possible to probate your own estate. The expense of settling estates is always heavy and will frequently consume all liquid assets, leaving the heirs only the least desirable of the holdings. The expenses include inheritance taxes, both state and Federal, lawyers' fees, administrators' fees, court fees, publication fees, and many other unexpected incidentals. The first four depend on the size of the estate, the others are the same for all. The fees for settling estates are never small. The feeling that the heirs are getting something for nothing and that others might as well get what they can is common. These costs of probating can be avoided entirely if the owner disposes of the property while still living. Even inheritance and gift taxes are not imposed if the owner makes the transfer while in good health and 'not in anticipation of death.'"

This statement is calculated to leave the impression that executors' fees, lawyers' fees, and court costs constitute a terrific drain upon an estate, whereas, as a matter of fact, they usually do not.

The subject of annuities is of special interest to bankers and trust men at this time. If, as Mr. Fitch suggests, annuities will be increasingly purchased in the future, many trust men believe that the time may come again when trust institutions, as well as life insurance companies, will sell annuities.

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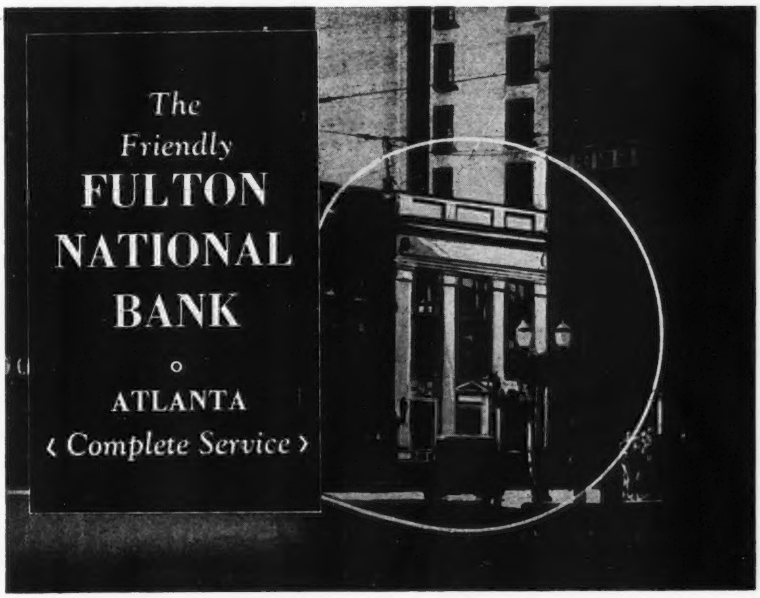

Training for Banking

THE growing need for trained minds in the banking profession was emphasized by J. F. T. O'Connor, Comptroller of the Currency, in his radio address to the graduating class of the American Institute of Banking on the evening of September 4.

Expressing his pleasure at addressing "men and women who, at a substantial sacrifice of leisure, comfort and money, have paid tribute to the idea that intellectual training for a given task is the primary consideration of sound public service as well as of personal success", Mr. O'Connor said the problems of banking demanded "the best trained minds for a proper solution."

"The banker of the future," he told the graduates, "will be especially trained for the practice of his vocation, and, as time goes on, that training will give him more and more the status of a professional man. This tendency is in evidence now and inevitably will become stronger.

"Out of the recent crisis, out of the great depression which has paralyzed business and finance the world over, will come a clearer realization that the business of banking calls for not only the best training available, but for a highly specialized type of training. With the lawyer, the doctor, the engineer, the accountant and others, the banker of the future will be a true professional man. As that time comes, a code of ethics for bankers will evolve, supplementing but more powerful than the criminal law.

"The standards of the profession will rise rapidly, it will purge itself of currupt and evil members, and the public in dealing with them will feel a security founded on the solid fact that no man can claim the honorable designation of banker until he has met certain well-known and high standards of ability, training and character."

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Cable Economies

To the Editor of BANKING:

A good deal of economy can still be obtained in cable expenses. Since the beginning of this year, there are no longer any restrictions regarding the making up of code words. For fear of a total reorganization—or for whatever other reasons—many are still using the same codes as before, thus leaving unexploited the enlarged possibilities afforded by the new regulations.

Generally, the old public and private codes contain words composed of vowels and consonants. The additional use of mere consonant words, for daily received quotations and many other special purposes, is recommended and will help to cut cable expenses considerably, without the trouble of a total reorganization of all codes.

For example, arranging the most frequently used exchange, term and produce quotations in a small additional private code operating on pure consonant basis, many of the old style 10-letter-combinations can be reduced to a 5-letter group, which means a saving of 26 to 60 cents in each case (the price of a condenser is about $5).

I would add that the condenser in use here was recently published by the Conso Condenser Corp., 7 Scheffelstr., Hamburg, Germany.

WALTER T. KOERNER
c/o R. & O. Kolster
Puerto Cabello
Venezuela, S. A.

The Direction of the New Deal

(Continued from page 15)

wages and shorter hours by obstructing steady and effective production.

This illusion may be temporarily sanctioned by a government, but it cannot long survive the bare realities that control the production of goods. As labor organization, under political or official sponsorship, becomes more comprehensive, the area in which it can exploit other unprotected groups in the community narrows. As it forces up wages generally to uneconomic levels and curtails output, it begins to feed upon itself, and the general prosperity is diluted.

Sooner or later the great mass of the public becomes conscious of the added burden and the reduction of the general standard of life through the arbitrary power of exploitation by organized minority groups. Then, especially if the power of those groups extends to the suspension of necessary public services, the public interest becomes vocal and asserts itself unmistakably. Government, whatever its academic or theoretical political philosophy, is compelled to recognize this public interest in sustained and effective production. It is forced then to intervene to hold the balance of power between workers and employers even.

THE ECONOMIC REALITIES INTERVENE

IT may begin, in a modest way, with the usual machinery of arbitration tribunals. But if this machinery makes its settlements, as it usually does, on the old horse-trading principle of pure expediency, or, as it is doing now in many instances in this country, uniformly in line with the money "purchasing power" illusion to which I referred, the economic realities, like the ancient gods of the mountain, ultimately overtake it, and it becomes merely a mechanism for diluting the real purchasing power of those it is trying to protect and favor.

With the creeping paralysis of private capital investment and the slow lowering of the real standard of living, the government which has sought to curry favor with organized labor by catering to its economic illusions may seek to cut the Gordian Knot by taking over industry and supplying capital itself. Then it suddenly finds itself fulfilling the role of employer, accountable at once to the public, its stockholders, for the security of their savings, and to that implacable dictator, the consumer, for a continuous supply of what he demands at low prices. At that point, inevitably, the gracious countenance of a government that is the cheerful friend of labor changes into the stern visage of the supreme boss—more hard-boiled than any the labor leader ever had to deal with—the public.

In no country where this logical sequence of economic processes has proceeded, whether stimulated by government or not, has it been able to escape the imperative necessity of stepping into the arena of large-scale labor conflict and subjecting labor organization to explicit public responsibility by legislative supervision and restraint in the public interest, or outlawing and destroying it altogether and replacing it by another machinery of industrial relations in which it is wholly subject to the state.

Is there any reason to believe that any other alternative lies before or beyond the "new deal"?

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Life Insurance As Supporting Collateral

By JOHN L. LOELL

The author, Detroit banker, is a leading authority on life insurance as collateral

ABOUT two years ago it was predicted by experts in the insurance field that within a period of five years banks would uniformly insist upon an adequate amount of life insurance as supporting collateral to all loans, regardless of the moral or financial responsibility of the borrower.

In my opinion that time is here. As the banks of the nation again begin to function normally and extend credit, now more than ever will life insurance find its proper place in the banking business. The Government has demanded that banks insure deposits for the benefit of depositors; by the same token the banks may with propriety request that the borrowers in turn insure the repayment of their loans. This practice, it is thought, should be uniformly followed in all cases of individual loans secured or unsecured, partnership loans, and in the case of corporations on the lives of its key men.

If all of the elements requisite to a good loan are present and credit is accordingly extended to the borrower, he is in a position, at the very inception of the loan, to service an adequate amount of life insurance. Any additional cost to the borrower in providing insurance protection is trivial compared to the many advantages accruing to his widow or estate in the event of his death. If the loan is paid at maturity and the insurance released, the borrower finds himself a better credit risk when he next finds it necessary to apply for further credit. In most cases it will be found that he will retain the added protection and will be glad that he has it.

A request for life insurance is for the best interests of the borrower, his family or his estate. In numerous cases with us, where policies have become claims, we have found, during a period of a depressed market, that we were enabled (both before and during receivership) by virtue of insurance pledged to pay off the loan in full, turn back the other collateral together with substantial amounts of cash to the widow. In these cases the widow has experienced a very handsome appreciation of the collateral returned to her. This is a very common occurrence and recommends most highly the use of life insurance as supporting collateral to even well secured loans. Aside from the advantages to the widow, or the borrower's estate, there is the feature of rapid payment of the obligation without resorting to probate proceedings, without resorting to the sale of collateral and leaving the bank entirely free from many unpleasant experiences and delay incident to the probating of estates. The investment of the borrower is left intact for the widow or estate of the borrower.

Corporate and partnership loans should be covered by what the profession terms "business life insurance" issued on the lives of its key men. Brains are quite as distinct a commodity as brick and mortar. Banks, concerned as they are in credits and finance, now more than ever before, realize the folly of insuring "material assets" against every possible form of loss without protecting themselves, as well as their customers, against the loss of "life values."

The chief asset of any business is the human asset represented by the brains, energy, experience, judgment, initiative, foresight and technical knowledge of the men responsible for its success. Plants and equipment in and of themselves produce nothing.

Business insurance is the recognized medium of replacing brains and generally absorbing the shock experienced by any business losing a key man. Dissolution of copartnerships and re-organizations of corporations after losses of this nature are frequent, and with consequent financial loss to all concerned.

J. A. McCord, one time Governor of the Federal Reserve Bank of Atlanta, has the following to say of insurance:

"There are four great bases for credit: Character, Capacity, Capital and Collateral. Collateral is necessary only when genius and character have not protected themselves. This may be done by life insurance, if the policies are made payable to the firm.

"As an officer of the bank, I have always inquired: 'How much insurance do you carry on your stock and buildings, and how much on yourself, and to whom is it payable?'

"The banker wants to know the amount of character behind the business and who is running it, and he wants to know if the organization is protected by a life insurance policy in a good company, if the presiding genius should die and another had to step into his place, or if closed by reason of a death, would there be enough insurance to liquidate without loss? The banker has a right to know."

In my opinion a separate statement showing the borrower's insurance set-up in detail should be taken at the time his financial statement is submitted, even if specific assignment of any part of it is not contemplated. The form used by the National Association of Credit Men is an excellent one.

Unless we refuse to profit by the experience of 1929, life insurance must play an important role as supporting collateral to all loans. It is almost an impossibility to judge the future marketability of securities at a time of

widespread liquidation, especially when that is the order of the day.

In all cases seasoned insurance should be taken. A new policy will carry at least a one year suicide clause and in most cases a two years clause. The bank should not be called upon to assume even that element of risk, however remote the prospect of suicide may be. Furthermore, if a man ever develops a suicidal tendency his family would be the first to detect it. The members of his family also would be the ones best able to dissuade him from carrying out any such intention, and finally if he felt that he was depriving his family by such an act, he might hesitate putting his plan into execution more than if he felt his creditor was the loser.

A new policy should, however, be required at the inception of the loan and be substituted for a seasoned policy taken from the borrower's personal line of insurance. In this manner the borrower's insurance set-up will not be diminished and the bank will be entirely free from any possible criticism in the future. At the same time the seasoned insurance will carry with it cash values that may become a valuable bank asset.

To be sure, the request for life insurance by the bank should be handled with discretion and diplomacy. Insurance should not be demanded—the idea should be sold to the customer. These matters should be handled by a man experienced in life insurance, capable of meeting life insurance men on a common ground, analyzing the insurance already carried by the borrower and experienced in insurance law and practice.

This plan is preferable for various reasons. The busy banker is not and cannot be expected to be conversant with life insurance. His function should be to advise the customer that an adequate amount of life insurance will be required, and then to turn him over to the insurance department, which will go into the insurance set-up of the borrower with the aid and assistance of the borrower's insurance agent to the end that the contract best suited to the borrower's requirements may be selected. Furthermore, it was the experience of one bank having approximately $18,000,000 of life insurance assigned to it to find that it had cash values of only $750,000.

Had this insurance originally been taken in by the insurance department alone, and not by the various officers of the bank, these cash values should have amounted to approximately $1,750,000—a splendid bank asset. This difference is accounted for principally by lack of time available to loaning officers to check into each case closely. Many policies were borrowed against to the hilt. An examination of the application blank attached to the policies would readily disclose other policies carried by the borrower, some of which no doubt were not borrowed against at all. In some instances term insurance contracts were taken, which of course have no cash value. Term insurance is not desirable for collateral purposes. At the same time the insurance department would complete the transaction taking the proper assignment, set up necessary records, indicating premium due dates and thereafter generally look after the policy and when necessary contacting the borrower on the due date.

The cost of setting up and maintaining a collateral life insurance department in any large bank is inconsequential compared to the benefits and values that will be established through this medium. One bank now in receivership, with cash values of approximately $800,000, will, it is expected, with accumulated death claims, realize over a period of time approximately $1,500,000. A large sum is thus made available to depositors.

The value of life insurance as supporting collateral to bank loans is therefore self evident. Its use as such is rapidly becoming widespread. It is my opinion that it will soon be taken as a matter of course by all banks everywhere.

I am confident from past experience with almost every life insurance company in the country that they will come more than half way to meet the banking fraternity on a common ground to the mutual benefit of all. I believe as the banks continue to require insurance as supporting collateral to their loans, that eventually the companies will in turn make their contracts more flexible, more elastic and better suited to the requirements of each.

Banks have experienced some difficulty in the matter of assignments. Each company has its own form and entertains its own views. Their forms and the procedure thereunder are confusing. It would seem highly desirable for the insurance companies to get together and draft an assignment acceptable to all companies and banks, and further to agree upon a uniform course of procedure covering all possible courses available to an assignee.

Uncle Sam Looks in Vain for the Trade Fruit

MORRIS IN THE CHATTANOOGA TIMES

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August 31, 1934

Directors of General Mills, Inc., announce the declaration of the regular quarterly dividend of $1.50 per share upon the preferred stock of the company, payable October 1, 1934, to all preferred stockholders of record at the close of business, September 14, 1934. Checks will be mailed. Transfer books will not be closed.

(Signed) KARL E. HUMPHREY, Treasurer.

Cheese, Cork and Rose Oil

SHOULD the occasion demand it, a bank will cheerfully engage in the merchandising of cheese, dog and goat skins, hair nets or Baku hats. And many are the services constantly performed for embarrassed customers, or for foreign or domestic correspondents, relating to the disposal of peculiar commodities which, for some reason or other, have failed to move smoothly down those channels through which such goods normally go.

Commissions of this type rarely are accorded the publicity which their novel nature would justify, for most commercial banks are aware that there is still a feeling in the public mind that it is not becoming to a bank to retail aggressively men's clothing or to wholesale cigars or cheese.

Furthermore, the bank which has had experience in the marketing of so-called specialized commodities knows that it is fatal to the market value of what it has to sell if brokers or the trade generally know the bank has them for sale. The law imposes no time limit within which a bank must dispose of goods taken over either as collateral or as a collection item, yet all markets invariably assume that marketing is to be commenced immediately and prices, accordingly, back away from the expected offerings.

This depression era has brought with it nothing like the distress finished goods problem which characterized the crisis of 15 years ago when bank new business men accosted friends and offered, not the services of their bank, but automobiles and fur coats. It is true that there are today huge surpluses of primary commodities, but banks rarely are involved in peculiar situations in such things as wheat, corn or cotton for which there is always a reasonably stable market.

Another interesting difference between 1929–34 and 1920–22, from a banking standpoint, is that bank merchandising problems associated with peculiar commodities have arisen, not so much in the loan departments, but in the inward collection departments. Something happens to an import shipment, covered by drafts with documents attached, and the foreign exporter's bank asks its American correspondent to see what it can do to prevent the goods returning home.

One large New York trust company feels proud of the fact that it has assisted foreign correspondents in recent months to find markets for such varied articles as rose oil, feathers, cork, dog and goat skins, cherries-in-brine and Numdahs.

The average person is not familiar with Numdahs. Neither was the bank when it tried to find a substitute for the American importer who had become bankrupt before these particular Numdahs arrived. It soon discovered that these articles were prayer rugs used by the followers of the Prophet and that there was a good market among Mohammedans in the United States. Among the deals this bank still has pending are some involving more Numdahs, one Agra silk rug "said to be worth $20,000", several packages of tanned lizard skins and eleven cases of wine and brandy.

Small banks are not as liable to be confronted with problems arising from the necessity of liquidating curious commodities, yet at one time or another every institution has something novel on its hands, arising from a loan, a collection or the purchase of a draft with documents carrying title. Metropolitan correspondents are usually glad to make available their experience of wide scope and to help the smaller bank find buyers for the materials for which it has become seller by proxy.

One of these metropolitan institutions lately has been helping a distillery, to which it made a slow loan, distribute 1,000 cases of whiskey to provide funds for payment of the loan. Another recently took custody of $10,000 worth of sardines for a foreign bank whose client, it developed, had no authority to ship to an American sardine importer. The American bank cabled abroad names and addresses of all known importers of sardines and the episode was closed by a deal through direct negotiation in which the bank took little part. This bank previously had disposed of a lot of men's clothing to a mail order concern which was a depositor. It also had been distressingly saddled with a consignment of olives which were so unfit for consumption that they had to be dumped at sea to save storage and duty.

In another institution is heard the story of the wealthy merchant of Smyrna who had incurred the displeasure of his government and who had to

NESMITH

"The average person is not familiar with Numdahs"

flee the country with all his exportable goods. Having no New York bank connections, the merchant picked a trust company at random and consigned in its care a shipload of tobacco. The trust company accepted the trust without proper investigation and held title for years to the tobacco which, stored in a bonded warehouse, was never claimed. At the eleventh hour of the last day of the three year period in which goods may be held in bond without risk of sale for duty, the tobacco was on a liner en route to Amsterdam, where it was finally sold.

A client of another bank had thousands of burlap bags made in India for sale to rice packers in China. There they were found unsuitable for rice; the client became financially impotent and his bank in consequence literally held the bags. They were brought to New York, warehoused and at length reexported to Cuba in the hope of using them as sugar bags. They were found as unsuitable for sugar as they had been for rice and they remained in Havana for a longer time than the bank cares to this day to think of. After the $30,000 worth of bags had rolled up a bill of $2,501 for freight, storage and insurance a broker walked into the bank, bought them at a price which astonished the bank, and exported them from Cuba to Peru. They had been found eminently suitable for guano. Not only was the price paid high enough to give the broker a good commission, but the bank recovered its $30,000 loan, its $2,501 costs and had a balance left over to pay to the receiver for the bankrupt business of its borrower.

Where credit has not been extended and title to the goods comes to it through its inward collection department, the bank is under no urgent pressure to sell them and the goods are not really distress merchandise, unless orders from the shipper make them so. Sometimes the foreign bank which acts for the foreign exporter will give full discretion to the American bank; more often there is much cabling before final records of transactions are ready for the archives. Often banks have to employ brokers—whose chief recommendation is their ability to be discreet.

Banks which have had the most experience along these lines have found it profitable to turn over all loans which are slow or in danger of becoming so, as well as difficult collection items, to a special department staffed by experts in liquidation or marketing problems.

SHORT TERM NOTES

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HARRISON AND PROSPERITY·

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POLITICIANS often paint things black or white but business cannot afford to.

BACK in 1840 the country stood at a parting of the ways, just as it does today. In fact, it has never stood any place else, particularly before an election.

PERSPECTIVE is the effect of distance on the appearance of objects and makes the past look quaint.

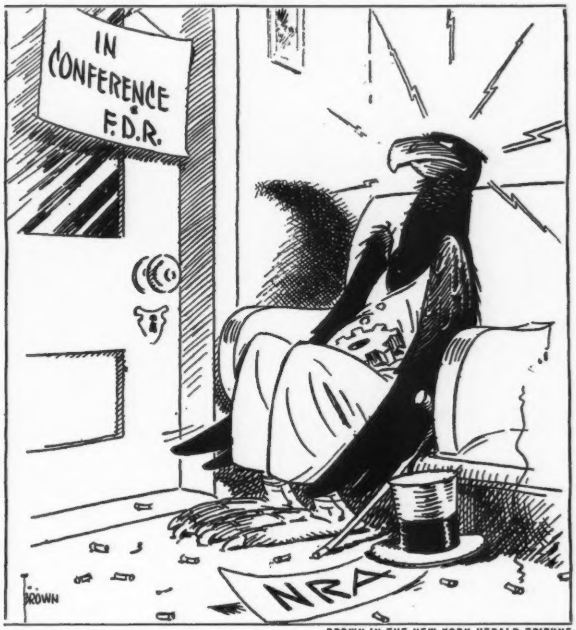
ADMITTING that there is more political and economic confusion than usual today, current events are much less distorted if viewed with perspective.

BANKING
JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

Home, Sweet Home!

HERBLOCK IN THE WICHITA BEACON

Waiting for His Code



BROWN IN THE NEW YORK HERALD TRIBUNE

CONVENTION CALENDAR (1934)

A.B.A. Meeting

Oct. 22–25	A.B.A. Convention, Washington, D. C.

State Associations

Nov. 2–3	Arizona Bankers Association, Hotel El Tovar, Grand Canyon
Nov. 8–9	Nebraska Bankers Association, Lincoln
Nov. 22–23	Mid-Winter Trust and Banking Conference, New Jersey Bankers Association, Hotel Robert Treat, Newark, New Jersey

Other Financial

Oct. 4–5	Mortgage Bankers Association, Edgewater Beach Hotel, Chicago, Illinois
Oct. 18–19	Savings Banks Association of New York, Waldorf-Astoria Hotel, New York, N. Y.
Oct. 18–20	National Association of State Bank Supervisors, Baltimore, Maryland
Oct. 23	Insurance Institute of America, New York, N. Y.
Oct. 23–24	National Association of Bank Auditors and Comptrollers, Washington, D. C.
Oct. 24–26	U. S. Building & Loan League, New Orleans, Louisiana
Oct. 29–30	Robert Morris Associates' Fall Meeting Business Sessions, Skytop Lodge, Skytop, Pennsylvania
Nov. 8–9	Twelfth Regional Conference of The Associated Trust Companies of the Pacific Coast and Rocky Mountain States, San Francisco, California
Nov. 12–15	Federal Mutual Fire Insurance Companies, Savannah, Georgia

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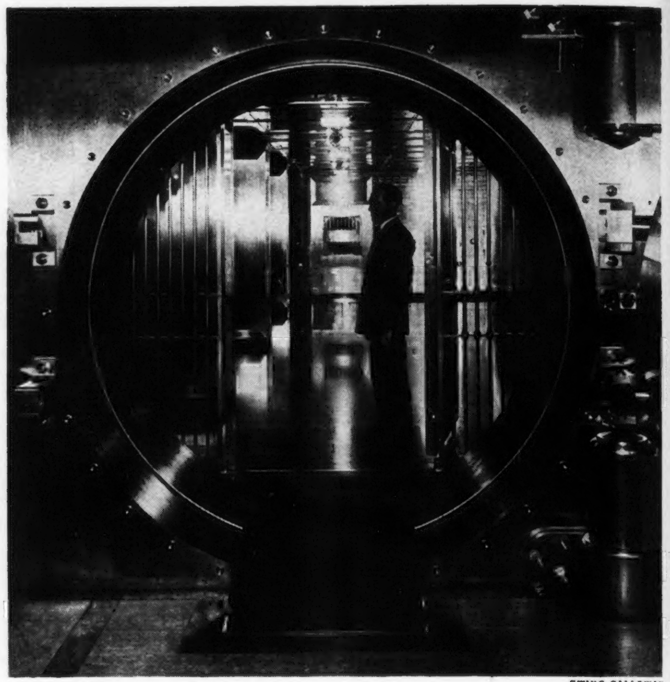
Training the Vault Staff



EWING GALLOWAY

By KENNETH W. MURRAY

The author is a member of the National Safe Deposit Advisory Council, Hamden, Connecticut

MODERN vaults, particularly those dedicated to safe deposit use, have reached such a state of mechanical perfection that the greatest danger of loss exists while the vault is open, during business hours. When closed, the steel and concrete walls and modern electrical systems of protection do their work efficiently.

This being the case, the banker's guarantee of protection from loss lies almost entirely in the hands of the vault employees, and his cheapest form of insurance always has been and continues to be the selection of the proper type of employees for vault work and their education in their duties and in the dangers which may exist.

Some may ask what there can be in the duties of a vault attendant which is sufficiently difficult to require a course of instruction. The answer is that while questions will arise which the attendant should refer to his superiors or to counsel, nevertheless there are other questions which arise daily, the answers to which should be known to the vault attendants; such questions are the following:

May boxes be rented to minors, to persons who cannot sign their names, to blind persons?

How may individuals, trustees, corporations, authorize others to visit their boxes?

What documents are necessary in renting a box to partnerships or corporations?

In addition to being able to answer the ordinary run of simple questions such as the above, the vault attendants should know that there is a right way and a wrong way of operating their vault and that the choice of the wrong method may be the cause of financial loss to their institution. As recently as last February a suit against a bank in the Middlewest for alleged loss from a box resulted in the customer's being awarded $4,500. In this suit the decision was based almost entirely on evidence that the bank was habitually negligent in the management of its safe deposit vault, that keys were not properly safeguarded, that records were not properly kept, that officers in charge were not acquainted with their own rules. Conditions such as these are little likely to arise in vaults operated by well trained employees.

If it is conceded that some training for vault attendants is desirable, the banker may ask: "How can such training be secured?—Or must the vault attendant learn by the sole and sometimes costly method of experience?" The answer is that vault instruction is available in many states where safe deposit associations have been in existence over a period of years. These associations hold regular meetings, at which the entire time is devoted to discussing proper methods of vault operation. At these meetings the experiences of others are made available as guides for all and the latest "dodges" of the dishonest are broadcast. Safe deposit employees are kept posted as to any court decisions affecting their business.

Proceedings of these association meetings are fully covered in printed reports which are available to banks that, by reasons of their location, cannot have their representatives present at the meetings. Banks located in states having no association are welcome to join the groups mentioned as associate members and thus may receive the benefits listed.

In addition to providing a course of study for safe deposit employees as outlined, the associations keep in touch with any proposed legislation which might affect safe deposit business, taking such steps as may seem necessary or possible. The associations themselves are of further use by reason of being linked together in a national organization which keeps the various groups posted as to what each is doing and also watches for national legislation bearing on safe deposit problems.

For years the American Institute of Banking has furnished courses covering almost every field of bank and trust company activity. The value of their work is generally recognized and the cost involved considered trifling compared with the results obtained. The safe deposit associations of the country now make available something of a similar nature for the long-overlooked vault employees, thus making it possible for every safe deposit department to be operated by a trained personnel.